



“Tata Capital Limited
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MANAGEMENT: **MR. RAJIV SABHARWAL – MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER – TATA CAPITAL LIMITED**
**MR. RAKESH BHATIA – CHIEF FINANCIAL OFFICER –
TATA CAPITAL LIMITED**
**MR. SANDEEP TRIPATHY – HEAD OF STRATEGY AND
INVESTOR RELATIONS – TATA CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Tata Capital Q4 FY26 Earnings 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 and then zero on your touchtone phone.

I now hand the conference over to Mr. Sandeep Tripathy, Head of Strategy and Investor Relations at Tata Capital. Thank you and over to you, sir.

Sandeep Tripathy: Thank you, Sagar. Good evening everyone and welcome to Tata Capital's Q4 FY26 Earnings Call. We hope you have had the opportunity to review our financial results, press release, and investor presentation filed with stock exchanges. Joining me today are Mr. Rajiv Sabharwal, MD and CEO, Mr. Rakesh Bhatia, CFO, and our senior leadership team. I will first invite Rajiv to share his perspectives on our performance for the quarter, following which we will open the floor for questions. With that, over to you, Rajiv.

Rajiv Sabharwal: Thank you, Sandeep. Thank you everyone for joining the call. Let me start with the macro environment and then I will move on to the performance. India's economy delivered steady growth in FY26 with real GDP estimated at around 7.6% underpinned by resilient domestic consumption. Inflation moderated for most of the year with headline CPI averaging below RBI's medium-term target, though price pressures began to firm up towards the year end.

From a policy perspective, FY26 continued to be RBI's easing cycle which began in February 2025. A cumulative 125 basis points of repo rate reduction supported by active liquidity management helped balance growth support with financial stability. Liquidity conditions tightened towards March, leading to some hardening in rates, but these pressures have since shown signs of easing. March being the end of the year also saw, as always, peaking of credit demand with system credit expanding to 16% year-on-year led by steady demand in retail and select wholesale segments.

Looking ahead, growth momentum could moderate amid a more uncertain external environment. Geo-political developments, particularly the continuing conflict in West Asia, carry implications for inflation, energy prices, and global financial conditions, and we continue to monitor developments closely. In parallel, evolving El Nino conditions remain an important watchpoint given their potential impact on food inflation and rural demand.

Now let me turn to the key highlights for the quarter, both on consolidated basis including motor finance and excluding motor finance. So we have been communicating both on an overall basis and also excluding motor finance, and we will do so in this quarterly call too.

Excluding motor finance business, our AUM stood at INR2.52 lakh crores, growing 28% year-on-year and 8% sequentially, driven by sustained momentum across our core segments. Profit after tax for the quarter was INR1,459 crores, excluding non-recurring items, up 51% year-on-year and 14% up sequentially. This was supported by lower credit costs at 0.8% and continued improvement in asset quality with net NPA declining by 10 basis points to 0.5%. Return on assets improved by ~40 basis points year-on-year and ~20 basis points sequentially to 2.5%,

which is at the higher end of our guidance. Return on equity improved by ~40 basis points year-on-year to 14.6% in quarter four of FY26. For the full year FY26, profit after tax excluding non-recurring items grew 36%, exceeding our guidance of 32% to 35%, with return on assets improving by ~20 basis points to 2.2%.

Now talking about our performance including motor finance business. Our assets under management stood at INR2.77 lakh crores, up 20% year-on-year and up 6% sequentially. For the quarter, credit costs improved to 0.9%, down ~30 basis points from quarter three of FY26, and PAT grew 16% sequentially excluding non-recurring items to INR1,502 crores. Return on assets improved by ~20 basis points quarter-on-quarter to 2.3% and ROE improved by ~80 basis points from quarter three to 13.9% in quarter four of FY26. Overall, our quarter four and FY26 performance is well aligned with our guidance across all metrics. I will now walk you through our performance across five key themes, followed by updates on our technology and digital initiatives and our housing finance and motor finance business.

First, talking about the book growth. I am pleased to share that we have delivered on our targeted AUM growth, recording a 20% year-on-year increase in line with the guided range of 18% to 20%. Importantly, this growth continues to be well balanced across segments, products, and geographies. Excluding the motor finance business, our AUM growth was even stronger at 28% year-on-year, exceeding our guidance of 22% to 25%.

Within this, our housing finance segment continued its strong momentum with the housing finance company delivering a 29% year-on-year growth. Our core focus remains firmly on retail and SME lending, which together continue to account for 86% of our AUM, providing a structurally granular and resilient growth profile. We also saw a modest increase in corporate exposures during quarter four of FY26, reflecting our ability to selectively participate in high quality opportunities within a well-diversified portfolio.

Quarter four set a new benchmark with disbursements crossing INR50,000 crores, a first for the company and a testament to our growing scale. Year-on-year, quarter four disbursements grew 32% and were 12% higher sequentially. Retail momentum remained strong with healthy sequential expansion in the book. Our unsecured retail disbursements continued its momentum, growing at ~50% year-on-year in quarter four of FY26 on back of improving asset quality trends.

With unsecured retail currently at 10.3% of AUM, we continue to see significant headroom towards our target of scaling this to 15% and we remain firmly on track to achieve this. As of March, our distribution comprised 1,477 branches across 27 states and union territories. This, combined with our digital capabilities, enables us to scale efficiently while deepening our presence across both existing and underpenetrated markets, serving a growing customer base of 8.4 million now.

Overall, our growth remains consistent, well-diversified, and anchored in quality, positioning the portfolio strongly for the next phase of expansion. The second theme I want to cover is asset quality. Asset quality in Q4 has been the strongest over the recent quarters. We saw a meaningful improvement across metrics. Slippages declined to their lowest level over the last eight quarters,

including that in unsecured retail segment, reflecting the continued quality of our underwriting and effectiveness of our collections infrastructure.

As covered in slide 16 of our investor presentation, slippages in personal loans and microfinance have declined 60% and 70% respectively. Excluding the motor finance business, gross stage 3 assets continue to remain strong at 1.5%, net stage 3 at 0.5%, and provision coverage ratio at 65.1%. Credit cost declined to 0.8% for the quarter, reflecting a ~20 basis points improvement over quarter three.

Including the motor finance business, our gross stage 3 assets were 2% compared to 2.2% in the previous quarter, net stage 3 at 0.9%, and provision coverage ratio at 56.2%, all showing quarter-on-quarter improvement. Credit costs improved by ~30 basis points to 0.9% during the quarter. The metrics on credit cost and net stage 3 are in line with our guidance for quarter four FY26 and for the full year FY26.

As far as risk from geo-political environment is concerned, we have not observed any material stress in our portfolio across commercial vehicle as well as MSME segments. That said, we continue to monitor the developments closely, virtually spending time on this on a weekly basis to see where things are progressing. Overall, we remain confident in the trajectory of our asset quality and are committed to sustaining these improvements in the quarters ahead.

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. For quarter four, our overall cost of funds stood at 7.1%, reflecting a ~5 basis points reduction from quarter three levels.

In line with recent global developments, we have seen an 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. We carry a total liquidity buffer of approximately INR29,500 crores and we have ample headroom to pursue growth opportunities and absorb market volatility without compromising on financial discipline.

Next theme is margins. We continue to operate with stable margin corridor with Net total income in quarter 4 at 6.5%. Yields have remained healthy supported by disciplined pricing and a calibrated shift towards higher yielding segments. At the same time, we continue to maintain a balanced mix across higher yielding products including unsecured retail, affordable housing, and secured business loans alongside steady growth in fee-based income.

Our continued emphasis on portfolio granularity and mix optimization has further supported margin stability even as we scale the book. During the last month of the quarter, we saw some mark-to-market movements in our investments reflecting broader market conditions during the period. These, we believe, are temporary valuation adjustments with no impact on long-term view on the investments.

Now talking about operating leverage. The investments we have made over the last few years across technology, data infrastructure, and distribution expansion are translating into structural

improvements in efficiency and scalability. We are seeing tangible gains in productivity, turnaround times, and overall operating efficiency and we expect the positive trajectory to continue as these investments scale further.

Our headcount growth has remained well calibrated and aligned with business requirements with incremental hiring happening largely in front-end roles in sales and collections. This enables us to support growth while continuing to enhance productivity and drive operating leverage across the organization. Our on-roll employee count stood at 29,816 as of March end.

For FY26, the cost to income ratio stood at 38.3%, representing an improvement of 335 basis points over FY25 and remaining comfortably within our guided range of 38% to 39%. On our balance sheet, our balance sheet remains strong, well-capitalized, providing a strong foundation to support our growth ambitions.

As of March 2026, our capital adequacy remains robust at 19%, well above regulatory requirements, and is supported by strong common equity Tier 1 ratio reflecting the underlying strength and resilience of our capital position. Our debt to equity ratio stood at approximately 5.3x as of March 2026.

A quick summary of our AI initiatives. Our AI initiatives initially focused on point solutions such as in call center and customer service. We are now scaling these capabilities across the lending value chain and moving towards more integrated end-to-end deployment that we expect will drive measurable improvements in operating metrics across businesses.

We have a number of flagship initiatives live today and let me highlight a few of them. Our underwriting assist platform, amongst the first in the industry, has reduced credit memo preparation time from 2 days to 20 minutes in our SME business, thereby improving productivity of the underwriting team by 30%. The adoption rate of underwriting assist platform today stands at 85%.

Our unified voice hub operates across sales, service, and collections in 11 languages. 90% of welcome calls are automated and AI-driven early bucket calling is delivering 30% EMI collection of the allocated pool. Our document intelligence engine has processed over 2 crores documents and currently runs with 80-plus operational bots improving productivity of operations team by 35%.

Talking a little bit about our housing business. Tata Capital Housing Finance continued its strong performance trajectory in Q4 of FY26, delivering healthy growth alongside improving profitability. Our AUM grew 29% year-on-year to INR86,653 crores, while profit after tax increased 34% year-on-year reflecting both scale expansion and sustained earnings quality.

Our strategic focus on affordable home loans, affordable loans against property, and prime LAP enables us to drive margin expansion, portfolio diversification, and scale. Net AUM of affordable housing segment grew by 25% year-on-year. We are now operating through a network of 350 branches supporting deeper market penetration.

Our focus on automation, Gen AI, and tighter operational control has resulted in improvement of cost to income ratio by ~320 basis points from 34.3% in FY25 to 31.1% in FY26. In fact, this cost to income dropped below 30% in quarter 4 of FY26. Asset quality continues to be our core strength. Credit costs remain stable at 0.1%, while net NPA stood at 0.3%, positioning us amongst the best performing players in the housing finance sector.

Tata Capital Housing Finance delivered a strong PAT growth of 34% year-on-year in quarter 4 of FY26 and 23% for the full year of FY26. Return on assets for quarter 4 stood at 2.6% and for FY26 ROA stood -- for the full year stood at 2.5%, highlighting the strength and sustainability of our earnings profile.

Little bit about our Motor Finance business. As you would remember, we achieved a breakeven in Motor Finance business in quarter 3 of FY26. Backed by seasonal strength and lower credit costs, profit after tax for quarter 4 in Motor Finance business was INR43 crores. The AUM stood at INR25,390 crores, a sequential decline of 4% reflecting our fitness-first approach.

Even though positive growth in AUM is lagging by about a quarter, underlying momentum is improving. Disbursements grew 32% sequentially in quarter 4 and we expect this to build as business stabilizes. The integration is on track and signs of progress are now visible in numbers.

If we talk about our portfolio mix in Motor Finance business, our non-Tata OEM share in new commercial vehicle disbursements for quarter 4 has reached 26%, reflecting early success in our multi-OEM strategy. We are increasing exposure to used commercial vehicles and small and mid-commercial vehicles while reducing our heavy commercial vehicle concentration.

Credit costs are declining with fewer slippages driven by tighter underwriting and stronger collections. Branch rationalization, focused manpower deployment, and IT integration are improving efficiency. The business is now aligned to Tata Capital's model with dedicated sales, credit, and collections verticals.

We have strengthened underwriting and collections, which is showing in the book quality across cycles. With these actions in place, we expect growth to resume from the first half of FY27. Looking ahead, we expect steady ROA improvement through FY27 and we are targeting to reach an ROA of 2% by FY28 as we had communicated before. Our focus now is on delivering consistent high quality outcomes as the transformation matures.

In the end, I would say FY26 reflected disciplined execution and strong fundamentals across growth, asset quality and profitability. As we enter FY27, we remain focused on sustainable quality-led growth supported by our distribution and technology strengths.

With momentum in retail and housing, improving motor finance volumes, and a strong capital and liquidity position, we are well placed to deliver on our FY28 guidance. We thank our investors, analysts, and partners and teams for the continued support. We'd be happy to take your questions now.

Moderator:

Thank you very much. Our first question comes from the line of Raghav from Ambit Capital. Please go ahead.

- Raghav:** Hi, thanks for the opportunity and congratulations on the numbers. I have three questions. One, I think you just mentioned that there were some slippages in the CV finance portfolio in the fourth quarter. When I'm doing my numbers and my calculations, that indicates that there have been some net recoveries in that portfolio of about INR35 crores. Can you verify what was the net amount, whether it's a net slippage or a net recovery in the CV finance portfolio?
- Rajiv Sabharwal:** Actually slippages have gone down and recoveries have improved. And that is the reason if you look at our Motor Finance business, I'll just try to point out to that slide. Actually we've mentioned that for the Motor Finance business, our net Stage 3 assets have come down.
- In fact, as far as profitability is concerned, for quarter 4 in Motor Finance business, we've earned a profit of INR43 crores. I would say a good portion of that has been contributed by higher recoveries and lower slippages. And actually our credit costs are negative. Net slippages are negative, sorry.
- Raghav:** Correct. That's what I was trying to understand that negative net slippages means there have been net recoveries, right, in this?
- Rajiv Sabharwal:** Absolutely, Yes.
- Raghav:** Understood, fair. And then can you touch upon how you're looking at growth in the CV finance portfolio in FY27? CV volumes have been very good in the second half, and ideally you should be capitalizing on these volumes for the industry, right? So just some thoughts on how do you plan to capture this cycle from FY27 onwards?
- Rajiv Sabharwal:** So, as far as the coming year is concerned, you're right that there is strong momentum in the commercial vehicle business. In fact, for the first time in March, we crossed a four-figure number as far as disbursements are concerned and we expect this momentum to continue. However, we do have a matured book in the commercial vehicle business on which we have a fair amount of repayments happening.
- So while we will grow our disbursements, the impact on the overall book growth may be more closer to 10% as far as the book is concerned. Our disbursements will grow at close to about 80% plus, that's what we have planned in next year. But because of the matured book there are a lot of repayments also which are happening. Consequently the book growth will be lower.
- Raghav:** Understood. Going into '28 maybe that 10% can pick up to a higher number?
- Rajiv Sabharwal:** Correct, correct. You are right. So while our disbursements will grow, book will grow slower.
- Raghav:** Understood. Can I ask my second question?
- Rajiv Sabharwal:** Sure, Raghav.
- Raghav:** So you seem to be pushing a lot more on corporate lending, that's visible in the numbers. I think last quarter also it was there. And unsecured growth is also coming by, one is low margin product, one is the other one is a high margin. So for '27, what are you thinking on product

strategy and what will you guide for in terms of spread expansion given that the yields have also started to pick up?

So, one bit on what is your product strategy and I want to understand that more from a yield expansion perspective, if there's going to be any. And then the second one is how are you looking at cost of fund? Yes, and that should really answer my question on this side.

Rajiv Sabharwal:

So, cost of funds is, I would say, a moving scale, tough to predict what is going to happen. But based on what we have seen and our estimate is, our cost of funds for the next year FY27 should be lower than the cost of funds for FY26. Now how much lower, time will tell, but we expect it to be lower than FY26 on an overall basis because a lot of liabilities have got repriced last year.

As far as margins, growth and margins both I will talk about. So as far as growth is concerned, let me first talk about, I did mention about what's going to happen on Motor Finance business. Motor Finance is also a high margin business for us. The other unsecured businesses, personal loan, business loan and microfinance, we've given it on Slide 16 what's the momentum on disbursement growth there.

While disbursements have started to grow in that business from -- over the last, I would say, 6 to 8 months, in personal loans, the impact on the book is less visible now because there were a lot of repayments also on a matured book, but you will see the impact on the book in FY27 where you will see significant improvement in book growth also. Same is true for business loans.

Business loans we expect also the book to grow at a pace better than our overall book growth rate, and same is true for microfinance. So for all these three businesses, the book growth will be higher than the overall growth rate of Tata Capital. So you will see an improvement in margins and growth there.

Similarly in the housing finance business, we've grown last year at about 29% in the housing finance company and we expect to grow at a similar pace in the coming year. With that, we believe that the proportion of retail business will marginally improve in our overall proportion for the coming year. And this retail and SME which forms about 86% for FY26 should inch up in FY27.

As far as FY26 is concerned, while just to give you a sense, our housing finance company grew by about 29%, our retail secured grew by about 28%. And so these were businesses which have shown strong growth. SME growth picked up in quarter 3 and quarter 4. We did see a de-growth in our book by about 24% in Motor Finance business, and part of it was made up by retail and housing and part by the corporate business. So we did see an opportunity in the corporate business of looking at very high credit rated companies and we did use that opportunity. But on an overall basis, 86% is retail and SME, which we expect to inch up more so because of retail, and retail includes housing in the coming year.

Raghav:

Thanks. That's all from my side and thanks for the answers.

Moderator:

Thank you. The next question comes from the line of Viral Shah from IIFL Capital. Please go ahead.

Viral Shah:

Yes, hi. Thanks for the opportunity. Rajiv, I had two questions. One is if you can explain the, say, relatively weaker non-interest income in this quarter, like what are the internals of it and what drove that?

And secondly basically I think it's a derivative of your response to the previous question. Now currently in the rate cycle that we are in, there will be probably more opportunities that may come up in the, say, SME and corporate segment.

But given that, we also would want to from a mix perspective want to grow the retail book as well. What will be your priority to look at in terms of overall profitability and say NIMs and spreads or to basically, say, push up further more on growth at an overall level?

Rajiv Sabharwal:

So, as far as growth is concerned, we've given a guidance of 23% to 25% and we want to remain in that range. Obviously, if we get an opportunity to do better we will look at it, but we want to remain in that range. As far as NIMs are concerned, our strategy has been to grow some of the high yielding products more than the others.

Last year we did suffer on that count because our unsecured business did not grow because we were - we had course corrected ourselves in FY25 and the impact was visible in book growth in FY26. Similarly our Motor Finance business which is also a high yielding business actually degrew by about 24% last year.

We believe all of this will get corrected in FY27. We expect in FY27 Motor Finance business to grow, it will grow and we also because of the disbursements which have picked up in the unsecured business we expect unsecured business to grow at a faster pace than our overall book growth.

Similarly our affordable housing within housing is growing at a faster pace and we will see that also helping us in our NIMs. So it is because of all of these products, our NIMs we expect them to grow. Last year they did get impacted because two high NIM businesses, unsecured as well as motor finance did not see a book growth I would say.

But that has started to change from the last quarter and it should get better. The other thing which I want to point out is sometimes we do not get a true picture of the NIM if we look at a 2 point average versus a daily average. While on a 2 point average the NIM looks flat, on a daily average shows a 10 basis points improvement.

So some of these figures and the run rate for Q4 is even better for us. So to that extent some of these numbers do not come out as clearly, but they do become visible when you see the income growth versus the average book growth. So as far as margins are concerned we expect them to improve in the coming year because quarter 4 also is better for us on margins compared to the full year.

As far as your other point Viral on non-interest income. While on the core fee side that has been showing a good trend for us both in terms of loan-linked fee or in terms of insurance cross-sell or syndication, all of those segments have grown very well for us. We have seen an impact on

mark-to-market on our investments and that is more so on the investments on the private equity side.

As you would know, March end saw a decline in the stock market and that impact was visible on our listed investments and some of the other investments because we do our valuation on a quarterly basis and multiples obviously came down for every industry virtually in March end. We are not actually perturbed by it because we do believe that markets will come back. In some segments they've already come back. For the others we expect markets to improve and this will only give us an upside in the coming quarters.

Viral Shah: Got it, this is very clear. And Rajiv, if I may, can I ask one more question?

Rajiv Sabharwal: Sure, Viral.

Viral Shah: Rajiv, if you can give some more color from say an asset quality perspective across some of the other segments, I would say especially how the mortgage piece is behaving I would say now that the growth rates and the book is seasoning even more. And secondly with regards to say the bounce rates, what was there the bounce rates that you saw in the month of April? I know you said that overall level you don't see any stress, but would you want to quantify that and is it in within the normal ranges?

Rajiv Sabharwal: So let me cover Viral segment by segment, you'll get a better picture on the same. So as far as corporate and SME are concerned, there is no challenge which we are seeing. In fact SME is one sector which we review every week post this whole war issue which has come in. So we review all our clients to see whether there is any stress.

We've not observed anything which will give us or alarm us in any way. So to that extent I would say we've seen no stress build up or anything happening on corporate and SME and we believe that we hardly have any credit costs there and we expect the same to continue in the future too.

As far as housing is concerned, which is the largest segment for us, the housing finance company, our credit costs for the year have been 10 basis points and in fact if I look at the trends, I see no reason why things should be any different going forward.

As far as retail is concerned, that's the place on the unsecured side where we had seen stress in FY25. And there as we had mentioned before we started seeing a lowering of credit costs happening from Q2. Quarter two was lower than Q1, Q3 was lower than Q2 and Q4 was lower than Q3. So in all of them we've seen an improvement and same is true for motor finance.

In fact we had a great quarter, quarter 3 was good, but quarter 4 was even better for motor finance business. Though in motor finance I would only say it's we need to watch for quarter 1 and quarter 2 because quarter 3, quarter 4 usually are better. But looking at our early indicators of the quality of book we've created, we do not foresee any significant impact. As far as your question on bounce rates were concerned, we were also concerned about it. And we looked at the numbers for the month of April and if I have to be very honest with you, actually we've seen a bounce rate coming down in April compared to quarter 4 of last year. So there are no signs. As we have communicated before Viral, our approach on collections does not start from the

stage when the bouncing happens. Our approach on collections starts before the banking happens and from that perspective we are very focused on bringing down bounce rates. So if I have to tell you bounce rates have been coming down quarter-on-quarter and that is where our focus is because if we can arrest it at the upfront stage, then I'm in a better position as far as collections are concerned to manage the flow forwards.

Viral Shah: Got it, this is very helpful. Thank you so much, Rajiv and all the best.

Moderator: Thank you. Your next question comes from the line of Nischint Chawathe from Kotak Institutional Equities. Please go ahead.

Nischint Chawathe: Hi, thanks for taking my question. Looking at your growth trajectory ahead, the single largest segment is home loans, which has grown at around 16% this year. So given the fact that you're looking at around 23% to 25% loan growth next year, with probably the share of retail going up?

I would expect that home loans, being the largest segment probably needs to grow at a faster pace than where it is today. We do understand that personal loans and business loans will probably accelerate given the momentum that we are seeing, but what kind of a loan growth do you really see for home loans and why is it sort of in mid-teen levels right now?

Rajiv Sabharwal: So let me cover it in parts, Nischint. You know we look at home loans in some distinct segments. One is obviously the prime loans, both home loan and prime LAP. The other is affordable housing and the third is micro housing. And if we look at these products, our prime home loan and LAP is growing at 21% plus.

Our micro housing is growing at over 50% and our affordable housing is growing at close to about 25%. So these are very healthy rates for us. In fact over the last, I would say, 6 months and also as per our plan for next year, we are adding a fair number of branches or going to more locations I would say for affordable housing and micro housing and we expect these segments to grow more.

Our approach as far as housing is concerned is to also look at a new segment which we're getting into, which is the near prime segment because we do not want to compete at the 7.25% and 7.2% rates being offered by other players. Our approach is to make the near prime bigger, grow you know make the affordable housing even bigger and make the micro housing also bigger. So that we can get the right NIMs along with the right credit costs. Anyway, the operating efficiency is kicking in virtually every year and you're seeing an improvement and we do believe that we have an opportunity to further improve it using all our initiatives on technology. So, you will see a bigger increase in each one of them and that's our plan for the next year.

Nishchint Chawathe: Got it. And within the housing finance subsidiary, what would be the ratio of home loans and LAP? I believe you need to have around 60% home loans?

Rajiv Sabharwal: So, we are, the ratio is 60%, so we are closer to about 61%-62% in that range. We are between 61% to 62%.

- Nishchint Chawathe:** So, I believe that incrementally the growth in home loans and LAP should be at a similar proportion when if assuming that you need to maintain the same 60%-61% going forward. Now this year growth in home loans was around 16%, LAP was 36%. So, you know probably need to catch up on home loans, right? I think that's what I was kind of coming to.
- Rajiv Sabharwal:** Correct. You're right. And there within that also our effort will be to grow affordable housing more. That's was the only other point, but I take your point on the first thing which you mentioned. I was only clarifying where we want more growth to happen.
- Nishchint Chawathe:** Fair point. No, I think the point I was coming to is that is it something that you're seeing more BT outs which could be arrested or is it something that you probably need to expand more to really scale that up? I think that's what I was kind of coming to.
- Rajiv Sabharwal:** So Nishchint, what happens and you know this market well, you've seen this for a very long period of time, whenever the rate drop happens, the pressure on BTs increases. And when the rate drops are not there or rate movements are less, the BT pressure reduces. So last year the BT pressure was very high. While we lost portfolio also, we did gain a portfolio where BTs came to us.
- So, it was true on that, but what we have what we are looking at in FY27, one we do believe that the BT pressures will be lesser in FY27. And the other thing is we are very focused on doing our bit on originating more. So, we are expanding to more branches because today while at Tata Capital we may have ~1400 branches, within housing finance we are there in just short of 400 locations.
- So, we have ample opportunity for us to also geographically expand, which we are doing. The work started six months back and you will see the results of the same. It started to show in March and they will continue to show in future. So, it'll be more through geographical expansion and also, we believe less pressure on BT in FY27.
- Nishchint Chawathe:** Got it, this is helpful. And just on as you move ahead from April to May and so on, are we sort of seeing any tightening in the screens the way the overall macro is and I think I think you pretty well highlighted some of the challenges in your opening comments. Are you sort of tightening the screens, would you kind of say that maybe for a quarter or so the pace at which your unsecured book is growing you may want to kind of mellow down a bit or I mean I understand the data points are very clear they're not showing anything but given the way the overall macro is are you sort of taking a pause before leaping ahead or business just rolls as it is?
- Rajiv Sabharwal:** No, so Nishchint, our approach is as follows. One, we look at what's happening in the market. As I mentioned to you, our risk, credit, and business teams virtually spend every week time on reviewing how things are progressing. The biggest segments which we are looking at is the SME segment and the commercial vehicle segment, how they pan out especially if the fuel rates also go up, they may impact commercial vehicle segment.
- So, what we have done right I would say a month back or so is looked at in which sub-segments of this we should tighten our approach, meaning either look at lower leverage or look at higher

credit score or look at tighter scorecards. So, we've looked at in within MSME in which sub-segments we should do so and that communication has gone to the credit team.

So, the approach is that we should tighten our norms in these sub-segments, for the others we should continue to watch but continue to also grow. So, at the moment very difficult for me to say whether we will see an impact on the overall growth or not because we are also expanding geographically. So, we are hoping that if we do lose out because of tightening, we will also gain because of geographical expansion.

Nishchint Chawathe: Got it. And just last one, even on construction equipment, I think you seem to have tightened a bit right this quarter, or is it just too much reading into numbers?

Rajiv Sabharwal: See when I Nishchint talk about commercial vehicle, for me I look at commercial vehicle and construction equipment together in a similar with a similar lens because there's a fair amount of overlap between the two. And so, we look at that segment because both are earning assets and both there is a fair amount of overlap in customer segments also there.

Nishchint Chawathe: Sure, got it, got it. This is very helpful. Thank you very much and all the best.

Rajiv Sabharwal: Thank you, Nishchint.

Moderator: Thank you. Your next question comes from the line of Shreya Shivani from Nomura. Please go ahead.

Shreya Shivani: Yes, hi. Thank you for the opportunity and congratulations on a good set of numbers. I had two questions. My first question is on the personal loan and the business loan segment. So, the GS3 numbers that we've shown in our table over there, exactly going back to the point sir was making that there are certain sub-segments probably you are looking to be slower in. Fair to say that probably PL and BL would be one of those segments? Qualitatively if you can make comments around which kind of customer segment or business profile are we seeing stress or are we continuing to see stress on?

And my second question is on the fee income, just a clarification over here. Your fee income for the corporate book would obviously be at a lower rate versus say if your SME and your retail book would have grown, right?

Rajiv Sabharwal: Correct. But the corporate book fee not only comes from the loans but also comes from syndication. So, I won't say that it is lesser.

Shreya Shivani: Right. Because it seems like that has slowed down a bit for fourth quarter. So, I just wanted to understand is it because the corporate saw the retail probably didn't grow as fast or how should I understand the fee and commission line item?

Rajiv Sabharwal: Sometimes what may happen is you may have a some amount of peaking which may happen, that may also lead to as a percentage to a different number, but if I look at our overall fee it is the same in quarter three versus quarter four. It was about 1.1% and still remains 1.1%. So, it is the same, the trend is the same as far as fee is concerned. So, we've not seen a drop.

Now what was your first question was PL, BL sub-segments? So actually, you know, our PL and BL are two distinct segments. PL is largely to salaried employees and BL is to self-employed segment. And in each one of them actually we've seen a drop in slippages and if you notice our slide 16 it actually shows that the slippages in PL are much better because PL is a segment which had suffered more as you would remember two years back than the BL segment. So, the visible more visible improvement is in PL also.

So as far as sub-segments within that are concerned, we have a huge number of sub-segments which our risk tracks on a regular basis. As I told you nothing at the moment is showing but segments like hotels and travel related these are the areas where we have tightened a bit on our policy, as I was mentioning to you, in the MSME segment.

And you know it's always a moving thing because it's not only we need to watch out for the primary impact but the secondary and the tertiary impact which is there because of this war also keeps surfacing as time progresses. So, it's something which we anticipate, but we also look at what is happening on the ground and if there is something more to be done, the whole idea is how quick can we be in communicating and taking an action on that.

Shreya Shivani:

Right, that makes sense. Just one follow-up on your branch strategy and your disbursements per branch, obviously with the kind of addition that you had done over the past three years, it was on a declining trend. Optically it looks that it has picked up this year, but is it fair to say that the retail disbursements as per retail branch has picked up or this is just looking optically better because your corporate and other book has scaled up quite well? Will the trend be, are you still increasing on the retail disbursement per branch?

Rajiv Sabharwal:

So, if you look at the year which just went by, we did not add too many branches on the retail side. And that will obviously with our disbursements growing, it will always mean that per branch our numbers have gone up. Our approach over the last year which we had stated before was that our we may not have all products present in all branches. So, our effort before we add new branches would be how can we populate more products in each branch so that we can leverage on the cost which we've already incurred for the branch.

Going forward also while we are expanding, we first look at can we get in the branches more products before we physically expand. But we will you know we didn't add new branches in any significant way in FY26, but in FY27 it will not be the pace which we had done over the last three years, but it will be a reasonable number of addition to our branch network I would say going forward. So, we can expect a 10 to 15% increase in our branch network.

Shreya Shivani:

Right. And sir in your branch in your branches your 350 housing branches and the remaining 1,477 total branches, the products can overlap, right? Some of the retail products can be present in the housing loan branches, right?

Rajiv Sabharwal:

Yes. This is exactly what I am saying. Rather than going to new locations we are adding more product in each branch which is also helping us on the operating efficiency.

Shreya Shivani:

Right, this is very helpful. Thank you and all the best.

Rajiv Sabharwal: Thank you so much, Shreya.

Moderator: Thank you. Ladies and gentlemen, we request all the participants to limit their questions to one each per participant and rejoin the queue for any follow-up questions. Our next question comes from the line of Avinash Singh from Emkay Global Financial Services Limited. Please go ahead.

Avinash Singh: Yes. Hi. Good evening. Thanks for the opportunity. Rajiv, I mean, if I look at the FY'28 guidance on profitability, that's a 60 basis point movement from where we are today. Now, broadly, 25, 30 basis point, it seems you are explaining from the cost to income and where today our credit cost is flat.

So, that kind of leaves nearly 50 basis point to be explained by you know, margins. And that is where you are kind of also alluding to the unsecured product increasing. Now, here are a couple of questions.

I mean, if you look at the credit cost side today, I mean, our housing is at 10 basis point. Now, if you go more into, you know, the affordable and near prime, is that 10 basis point looks kind of a sustainable. Of course, there is going to be overall benefit from you on the motor vehicle side.

But then when you are going to increase this unsecured piece, that kind of will start to balance out. So, then at the aggregate level, where the direction you are taking, I mean, in the housing as well as in the unsecured side, this kind of, you know, credit cost is that kind of, you know, manageable because that's kind of an event for a diversified lender like you. Pretty, under 1% is kind of not seen in, you know, the non-banking financial side?

And secondly, related to that only, your opex, I mean, if you kind of for the area you want to grow more, whether it's a housing or unsecured, again, these are relatively more opex intensive. So, I mean, so you're already pretty efficient in cost to income. You still think that, okay, this improvement is kind of doable?

Rajiv Sabharwal: So, Avinash, let me cover this. So, what we try to do is get into as much detail as possible. So, if we give out a number, we have very strong basis on which we are giving out those numbers. That is all, that is where our, you know, effort goes in. So, let me cover each of the points which you mentioned about. See, if you look at our history and, you know, you look at before this unsecured, increase in unsecured credit cost went up, our credit costs were always in the range of about 70 basis points or so.

So, despite, you know, all of what used to happen, you know, it may be 10 basis points here or there, but they were in that range. It did increase, one, because we saw higher costs in the industry happening on unsecured, and two, because of the merger of Tata Motor Finance and Tata Motor Finance had higher credit costs.

So, even if you look at the FY26 numbers, our credit costs are 1.2%. Now, based on the nature of portfolio which we have, the high amount of mortgages, the low amount of unsecured book which we have, we do believe that the right credit cost for us would be some 1% and which is the guidance which we have given. So, that means 20% to 25% we can still shave off and still

that credit cost will be higher than what we used to have earlier of closer to about 70 basis points. So, we do not believe that there is a number which we can't achieve. So, that gives us an opportunity to bring down credit cost by that much number, 20 to 25 basis points.

As far as operating cost is concerned, you are seeing the advantage which is coming because of scale and because of use of technology. I did mention that we are focused on using AI. In fact, our approach is this that virtually we want to train almost all of our manpower to understand the advantage, manpower and womanpower to understand the advantage of AI.

And if you would talk to our team, everybody does believe that AI can make a huge difference. And because of digitization, AI and other things, we do believe that the estimate which we have taken on operating costs, if all goes well, we may be able to do even better than that. But at least I am sticking to only what we have communicated.

So, we believe there is an opportunity for us to bring down our costs by further from where we are by about 15 basis points or so. So, if you factor in the impact of credit cost and the impact of operating cost, that itself is about 40 basis points or so. And the balance will come from NIM plus fee.

And for NIM plus fee, it is happening because of the mix of products rather than us taking more risks in each business. I know you did speak about, you know, if you go to more unsecured or if you go to more affordable housing. Even if I go, you know, talk about more unsecured, actually, you know, we are today at closer to about 10%. Even if I increase it by another 2%, it will not be large. It will just be 12%, which will be lesser than what I used to have in my peak. So, the opportunity for me to grow without impacting credit cost exists.

And second is on affordable. If you would remember, we have always said, for us, we are looking at the better quality of affordable. We are in terms of origination among the top in terms of different affordable housing companies. And we do originate at a slightly lower cost, pick up a better quality because our cost of fund and our operating leverage allows us to do so. So, I hope, Avinash, I answered your question.

Avinash Singh: Yes, clear. Thank you.

Moderator: Thank you. Your next question comes from the line of Shubhramshu Mishra from PhillipCapital. Please go ahead.

Shubhramshu Mishra: Hi, good evening. Thank you for the opportunity. So the question is around the reconciliation of the LAP number. When I look at the LAP number above, it is somewhere in one of the slides above it's at around INR38,000 crores and the when I look at the Tata Capital Housing, it's at around INR17,000-18,000 crores. So just wanted to understand what is the difference between the two and why are we running two different LAP books? Second is you did mention about the opex, but with guiding for around 23-25% kind of a growth levels in '27-'28 or in the medium term, how do we look at opex growth or maybe opex to assets going forward in the next one-two years' time?

Rajiv Sabharwal: So if you would you know look at our LAP book, we do loan against property in both the books, the NBFC and the Housing Finance company. We feel it's a large market and in terms of portfolio quality, both the portfolios have done very well and we do believe that both these entities have an opportunity to do so. They are two separate teams which work on it.

We just ensure that credit policy on credit policies we don't compromise. So we want to stick to that strategy and want to continue to do so in the future too. As far as your question on opex to assets is concerned, if you would look at our guidance for FY28, we have said that cost to income should be between 33 to 34% and we do believe that is achievable.

See what is happening now, if you look at NBFCs or banks also I think but in NBFCs 50% of the cost, close to 50% of the cost is people cost and the balance is the other costs. As you know, other costs are obviously a lot of efficiency is coming in them because of you know digitization, automation, using robotics or GenAI. So you are clearly seeing the benefits.

As far as people is concerned, what we are realizing that increasingly the only two places where we feel any significant addition on people will happen will be on sales and collections, rather than all functions, because a lot of automation is happening in the other areas. So that's the reason which we believe will drive these benefits on cost to income or cost to average assets.

Shubhranshu Mishra: If I can just have one follow-up question on the LAP, if we were to book up a LAP today, how would we decide whether it gets booked on the NBFC book versus the HFC book? And the way I look at it, this is a duplication of costs and team at both the places, right? Having two separate teams, having two separate policies, so if you could just take this up, thanks.

Rajiv Sabharwal: So Shubhranshu, as far as policies are concerned, you know the overall risk team at Tata Capital also oversees the risk at Tata Capital Housing Finance. While there are dedicated people for risk in Tata Capital Housing, but Tata Capital risk team oversees that. So we do ensure that there is no arbitrage on the policy side also.

As far as booking is concerned, we have two separate sales team and two separate credit teams. Even the operations is separate. So completely distinct operations. So what is originated by one is booked by one, what is originated by the other team is booked by the other team. And so to that extent as far as training is concerned, we ensure that similar training is imparted. So from a risk and the credit side we ensure ensure uniformity there, but in terms of origination there are two separate teams.

Shubhranshu Mishra: So in Bombay both the teams are operating or maybe in Guntur both the teams are operating, or we have distributed the geographies?

Rajiv Sabharwal: No, there are overlapping markets, there are some distinct markets also which exist because the number of locations they are present could be different for the two teams. But yes, in certain locations they will be there in both the areas.

Shubhranshu Mishra: Understood. I have a few other questions. I'll take them offline. Thank you so much, best of luck for ensuing quarters.

- Rajiv Sabharwal:** Yes, just a minute. I think my colleague Sarosh who heads the Housing Finance Company wants to add.
- Sarosh Amaria:** Yes, just one thing I would like to mention out here that in the housing finance company the team which sources the home loans is the same team which sources the LAP also. So there we have a very strong productivity improvement, because at times you have a self-employed customer, you have a salaried customer and at that point of time your productivity improves because you can go in for multiple loans for a particular customer.
- So from that perspective also and what Rajiv added, it makes a lot of sense for the same team which sources the home loans to also look at LAP because it improves the productivity on the field.
- Shubhranshu Mishra:** This was really great. Thanks. I'll still take a few questions offline. Best of luck, thanks.
- Moderator:** Thank you. Your next question comes from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.
- Abhijit Tibrewal:** Yes, hi Rajiv, just two follow-ups on what you have shared with us in this earnings call. Firstly is, a couple of times you mentioned that we've not seen anything alarming in either SME, CV, or unsecured PL and BL segments in the month of April, which is very good to hear, but just wanted some more nuance around this. When you speak to the field teams, are they telling us that the customers, the businesses, the SMEs that we serve, they're not impacted by the war at all, their businesses are not impacted by the war at all?
- Or is it that there are already some impact first-second order impacts that have started coming now but just that the customers are maybe resilient and they've been paying their EMIs in the month of April just like we saw in the month of March as well? So that was my first question. And yes, sir you want to go ahead, please.
- Rajiv Sabharwal:** No, Abhijit, what I wanted to say is that, you know, the way to look at it is, two ways. One is where certain markets you see you hear about, whether it was Morbi or whether it was Surat or certain markets which come into the news where you look at those things.
- The first thing is to talk to those business as well as collection teams in those markets to see whether we've had any impact. And two is to look at generically on the portfolio what are you seeing, when you are getting feedback from your own teams who are talking to the clients. There are obviously customers which me or my colleagues also meet on a regular basis to get a sense from them.
- So based on the feedback from all of them, the view which we have ascertained, one is this that all entities, you know all SMEs have a linkage to large companies. And in almost all of them, they have been supported by the larger company in terms of helping them out in sourcing of raw material and so on and so forth. And that has not led to a situation where your businesses have shut or anything of that nature has happened.

What has happened in certain cases is depending on the product, the raw material costs have moved up. But wherever raw material costs have moved up, what people are saying is that they are able to pass on those costs. So you will obviously see an impact on the inflation side because of all of that.

As far as those specific markets for Surat and Morbi which came into the news which we have looked at, there we looked at you know both our bounce rates or our collections, as I mentioned to you in April actually we have not seen any impact and the way things are moving April is looking almost as good as March.

Abhijit Tibrewal:

Got it, sir. This is useful. And then the other follow-up I had is earlier in the call you had shared and guided that FY27 you expect your cost of funds to be lower than in FY26. So I'm just trying to understand you also acknowledge this and a few other large NBFCs that we speak to have acknowledged that March particularly the cost of borrowings were significantly higher than the portfolio cost of borrowings.

So do you think March was an aberration of sorts and because of some tightness in liquidity the cost went up and then in April have they reverted back or in April the cost of borrowings are at similar levels as in March? And subsequently if incremental cost of borrowings are coming in higher than what we saw until, let's say, Jan-Feb, then what is it that is telling us that cost of funds in FY27 can be lower than in FY26?

Rajiv Sabharwal:

So, Abhijit I'll say, we should break it up into two parts, the stock and the incremental. If you look at the stock per se, when the interest rate started dropping, the benefit started accruing over the year. It is not that every lender or every borrower's cost of fund is linked to 100% to repo rate and it changes immediately as repo rate changes.

So there is, for example, if you have already raised 3-year NCDs, when you will replace them with a fresh set of NCDs when the previous ones mature. So on maturity, the incremental cost will determine your cost of fund. So that is one. So based on the same, we do believe that moneys which have been raised in FY26 or some part of FY25 will keep running for FY27 and may not need to be fully replaced and they will remain at the lower cost because they are fixed rate borrowings. Okay.

So, one is this whole stock versus incremental logic and what will change for you is incremental and not the stock. The second is as far as your other question on March, yes, March did see an increase. However, when you talk about April, in April the short-term costs have come off while the long-term costs have still not come off compared to what they used to be in December-January. So that's the way I will put it.

Now how they will shape up in the coming months, we will need to watch. But based on what we have as of now and based on our assessment, that's the number I gave to you because of the stock and incremental. And however we continue to watch. As I said always that if we feel that cost of funds will grow or cost of funds will come down, we will also have to pass it on or take it.

- Abhijit Tibrewal:** Got it, sir. That's all from my side. Thank you very much for patiently answering my questions and I wish you and your team the very best.
- Rajiv Sabharwal:** Thank you so much, Abhijit.
- Moderator:** Thank you. The next question comes from the line of Kunal Shah from Citigroup. Please go ahead.
- Kunal Shah:** Yes, thanks. So most of the questions have been answered. Just a couple of things. Firstly in terms of the corporate lending, if you can just let us know the profile of it, at what yield it is happening compared to that of the overall book yield, and what would be the average maturity of this portfolio? That would be helpful.
- And secondly as you indicated, maybe any which ways there were some of the industries which you are closely monitoring, but if you can quantify in terms of maybe there would have been the red, amber, and green, and what would be that proportion within the overall SME pool which is getting closely monitored or which are vulnerable to some of the higher input prices or the energy-related sensitivities or the exchange volatility? That would be really helpful within the overall SME portfolio as well as the other portfolio. Yes, thank you.
- Rajiv Sabharwal:** Thanks, Kunal. So as far as corporate is concerned, corporate has three parts to it. One is clean energy business which we do. Second is the opportunistic corporate lending which we do, and the third is some part of developer funding which we do there. So, if I have to talk about this, then as far as quality of portfolio is concerned, whether it's developer funding, whether it's clean energy, or the opportunistic corporate which we do, when I say opportunistic, we do not look at plain vanilla funding in corporates where we will be competing with banks.
- We look at lending to very high rated corporates. They may be AAA or AA sort of corporates where we may have an opportunity to lend. It could be short-term which could be 1-year, it could be long-term which could be 3 to 4 years typically. So that is what we look at there on the corporate side.
- Kunal Shah:** Sir, the question was Yes maybe I understand in terms of the segments which we operate. I just wanted to know which segments are driving this growth if there is like say the increase which has happened in the overall portfolio of almost INR15-odd thousand crores over last 1-year, or say INR5-odd thousand crores in this quarter, which particular segment is driving this growth?
- Rajiv Sabharwal:** So it would be well spread out. I would say, it's there in clean energy, where there is a lot of demand for credit, where new projects are coming up. It's there in developer finance and it is there in - you name probably the top 10 corporates of the country and half of them will be there. So I don't want to name clients, but there is growth happening in all of these areas.
- As far as yield is concerned, our approach is slightly different there. What we look at is return on assets rather than yield. While any other business may give us a higher yield. In corporates, the yield may be more closer to maybe 11%, in developer it may be more closer to 12%-13%. But more important, their return on assets is very good. They are all sort of 2.5 and above.

Can be much higher also depending on the opportunity and the tenor and the fee which you get on the transaction. So our approach is to look at ROAs which are strong there and that is how we measure it rather than just looking at the rate because the opex is pretty low in these businesses.

As far as your other question on red and amber and this, so actually everybody defines red, amber very differently. It's just that when we reviewed it and if red means we expect this client to move to a delinquent position. When I say delinquent, I'm not talking about just 90 plus, even if will it move to a 30 to 60 or 60 to 90, we did not see because of war any such client in our book.

However, there are clients which we want to watch more closely. But we do not expect at the moment based on our assessment any of those clients in the SME sector to move forward on the, I would say, those buckets.

Kunal Shah: Okay. So, in quantification, that would not be large out of this INR75,000 crores of SME. What we are watching closely, that would not be a big pull?

Rajiv Sabharwal: No. See, because the biggest segment for us is supply chain, for example, which is a 60 to 120 day funding.

Kunal Shah: Got it, Yes. That answers the question. Thank you.

Moderator: Thank you. The next question comes from the line of Gaurav Purohit from Systematix. Please go ahead.

Gaurav Purohit: Hi, good evening, sir, and thank you for the opportunity. My question is around the Motor Finance business. So, there was a legacy borrowing of around INR25,000 crores-INR26,000 crores in FY25. I want to understand how much of that has already been repriced and what proportion is pending after the merger? That is question number one.

And second question is around the underwriting changes that you have made in the Motor Finance business post the merger, particularly around risk filters and maybe the rejection rates that you are seeing there because of the changes, the pricing discipline that you are trying to imbibe there and if you have made any changes in the dealer incentive structure. So, these are the two questions. Thank you.

Rajiv Sabharwal: So, Gaurav, as far as both the questions are concerned, one, as far as repricing is concerned, that activity we completed in the first few months of the merger. For that, we didn't take much time. The only place where I would say it took maybe 6 to 8 months was where the reset date was after that period.

But wherever we didn't have challenges on the reset date, either we repriced or we repaid it and borrowed it afresh from someone else at a lower rate. So repricing is all done during the last financial year FY'26, or I would say 95% would have been done. Anything which is left would be only because the reset date is different; otherwise, it is all done.

As far as underwriting is concerned, a lot of changes were made in the underwriting policy in a number of ways. The policy changed, we looked at scorecards. We got certain people from outside also on the credit underwriting side. So, yes, we ensured that credit and sales were made distinct so that the purity of the function is respected.

Plus, we introduced a fair amount of analytics so that we can detect things early if there is any challenge. So, while delinquencies may take a longer time to come, but we monitor everything. We monitor right from bounce rates, the average score at which we originate, the 30+ at 3 months, 6 months, 9 months, 60+ at 12 months, and so on and so forth. We do a fair amount of monitoring on this, which makes us feel good about what we have originated over the last, I would say, 15 to 18 months.

As far as rejection rates are concerned, actually, we are not a big fan of this whole thing called rejection rate because it really depends on how you measure it. Our whole objective is at the front end, can we put in certain controls that things which are definitely going to get rejected, we don't even allow them to come into our system so that the sieving happens at the front end.

And if the sieving happens at the front end, then your rejection rates could be different from the overall rejection rates. So effort of the team there is to put a sieve as early as possible and measure it more by what you are seeing on the book in terms of bounce rates or early 30+ and so on and so forth.

Gaurav Purohit: If I can squeeze in one more follow-up question?

Rajiv Sabharwal: Yes.

Gaurav Purohit: So sir, this year has been basically you have de-grown the motor finance book. So what is the kind of message that you are passing to the dealers or your sales people are passing to the dealers given that a lot of churn would have also happened in the front-end teams after the merger, like you said you had rationalized manpower.

So in terms of market share, how do you see that progressing because there is already a lot of competition at the dealership? A lot of the peers are also giving trade finance to support their volume. So how do you see the entire situation and would you be doing trade finance too just to gain market share?

Rajiv Sabharwal: So, Gaurav, I completely admit the market is very competitive. Actually, there is no product in India in financial services where you don't see competition. Our approach is very simple that look, as far as risk and credit is concerned, we will decide what we want to keep on our books and what we want to originate. The sales team will have to work harder to originate based on that quality which we want.

For us, in the Motor Finance business, actually our volumes had gone down even before the merger had happened. And if you look at from the last April-May, we have only been growing now. So what dealers are seeing is that the phase of the volumes going down, the monthly volumes going down is over. Now for the last 6-8 months, they are only seeing incremental

increase in volumes. So to that extent, what you were saying is history for us. Now the current new history is that we are growing.

As far as our approach towards dealer finance or giving credit to channels are concerned, we do it purely based on merit. We have been in this business of providing credit to dealers for the last 10 years plus. Even when we were not large in commercial vehicles, we still were providing dealer financing. It is a business; supply chain financing is a strong business for us.

So, we basically are leveraging the same to do more of retail business. So, if it merits that we support retail business by providing trade finance, which we believe is also profitable for us, we will definitely look at those opportunities too.

Gaurav Purohit: But that would be slightly margin dilutive, right sir?

Rajiv Sabharwal: No, if you look at the channel finance business, our current channel finance business gives us a yield of 11% plus. And that is usually a, I would say, 60 to 90-day business. So if you look at the margins in that business for liabilities of that profile, there is no reason why we will not make very healthy ROAs. See, it's a portfolio yield. There will be dealers whom you will be offering a slightly lower rate. There will be dealers to whom you will be offering a slightly higher rate also.

Gaurav Purohit: Got it, sir. Thank you for patiently answering my questions and all the best for the future.

Rajiv Sabharwal: Thank you so much, Gaurav.

Moderator: Thank you. The next question comes from Advait from Go Digit Life Insurance Limited. Please go ahead.

Advait: Most of my questions have been answered. Just one question on our FY28 guidance. So for FY28, we have guided for an ROA band of 2.5% to 2.7%. I understand that the cost-to-income would play a crucial role in us meeting that guidance. So in that context, just wanted to understand if you could give some color on the levers that we are looking to bank on, to bridge the gap between the current cost-to-income versus the target by FY28?

Rajiv Sabharwal: You know, one is we mentioned that we want to leverage our existing branch infrastructure more efficiently to get more products in per branch, which will help us. Two is, which is something which we religiously drive within the organization, is to look at how we can digitize more, how we can use data more, how we can use unstructured data more, and now it is all getting ingested more through Gen AI.

So a lot of projects on that side which we are doing which are helping us. And third is clear benefit of scale. As your scale improves, that also leads to benefit on our cost to average assets. So it is going to be all of them, but I would say the biggest is obviously technology, digitization, and now increasingly more AI being used.

Advait: Got it, got it. That's helpful. And just one quick follow-up. So initially you gave some important color on our loan book mix and how we are looking at respective chunks of our book in terms

of asset quality and all. Just one slightly forward-looking question. If one observes in the past few months, there is some fair degree of layoffs in IT services space.

So in that context, from our prime to semi-prime home loan book, I wanted to understand if we are tracking any particular early warning indicators, or how we started to price in this particular risk while doing incremental disbursements, how we are looking at it?

Rajiv Sabharwal:

So if you look at our approach there, one this is not something new. This is something which has been spoken about for the last, I would say, 12 to 18 months. And right from that stage, we had put some enhanced due diligence for this segment and we have been following that.

The other is, a lot of the, I would say, layoff or whatever we call that by, has been there for larger companies, I would say prime companies, where probably loans have been given out at a single-digit or close to single-digit. And we do not have a very high presence in that segment per se. That is where I would say most of the larger banks would be present in.

So when we have looked at our personal loan portfolio, which would include all salaried employees, that's a number which I had referred to earlier also, that our bounce rates have been coming down. And that's the first indicator of what's happening.

Advait:

That's helpful.

Moderator:

Thank you. The next question comes from the line of Omkar Shinde from A Capital. Please go ahead.

Omkar Shinde:

Hi, thank you for the question and the opportunity. I just have one clarification and one question. First is regarding the average yield that you have given in the annexure. That is the AUM yield or the disbursement yield?

Rajiv Sabharwal:

AUM yield.

Omkar Shinde:

So the AUM yield has dropped by say 90 basis points during the year. So the question related to that is, I mean, you mentioned that we saw a little bit of tightness in the market during April and early part of May or early parts of March, and because of which incremental borrowing costs are higher. But the regulator, RBI, NHB, they are all behind HFCs, NBFCs to pass on the rates and move the cost towards the customers.

So, my question is twofold. One is how much of the book is fixed or floating? Because if it is external benchmark linked floating book, then we can easily move the needle on the pricing and therefore not get impacted too much by the cost of borrowing. That is part one.

And what is giving us the confidence? Because for example, if even our affordable housing book is at slightly better customers of the affordable segment, then with one of the peers that had recently announced results was somewhere in the region of 11.5% incremental yields, are we in that same ballpark or are we slightly higher? Because structurally if the yields are going down, then will it be possible for us to maintain better ROAs or even increase the yields if there is a requirement?

Rajiv Sabharwal:

So, as far as yields are concerned, two things there. That one, you know, one should look at yield as well as the drop in cost of funds. So both should be looked at together. And what we are seeing there is while cost of funds are also coming down, we are passing on the benefit, so the yields are also coming down.

But the other point which I had mentioned to it earlier, which probably comes out more clearly, is this that when you look at the two-point average versus daily average, on a daily average, we are seeing that the drop in yields is not more than the drop in cost of funds. While on a two-point average, it looks more than that.

And that's the reason your net income will increase at a faster pace than your average book. So, yes, there is a pass-on of yield which is happening because of interest rates coming down, but so is our cost of funds. That is also coming down. Sometimes a daily average gives a better picture than the two-point average. So that's on margins.

But the other point which I want to say is that what we had mentioned earlier, that we are trying to increase the mix of products towards more high-yielding products, which I would say would be very different in FY27 over FY26 because in FY26 our unsecured book did not grow any significantly. But since the disbursements have started to grow, you will see the book growth happening in FY27. And the second thing is Motor Finance also, which is a high-yield book, was de-growing in FY26, which will not happen in FY27.

Sarosh Amaria:

Omkar, I could just add here that in the housing finance, and particularly the affordable, more than 98% of the book is floating. One thing which I would like to speak about here is the yields that you spoke about on our affordable segment is for the last financial year is around 12.10 on the book.

And our NIM plus fee, which was in the region of 6.7, has improved to 7.6 in this financial year. So we have been only able to grow our NIM plus fee in the affordable housing finance business.

Rajiv Sabharwal:

So and to just add on to what Sarosh mentioned, if I look at my greater than 1-year liabilities which have tenors of more than 1-year, and if we look at the proportion of that and the proportion of our assets, basically they are more or less same on fixed and floating.

Omkar Shinde:

Understood. That's good to hear that I mean both the NIM plus fee and the floating-fixed is good and our yields are also materially higher compared to the peers. Great. That gives me great clarity.

Rajiv Sabharwal:

Thank you, Omkar.

Moderator:

Thank you. The next question comes from the line of Vikram Subramanian from Marshall Wace. Please go ahead.

Vikram Subramanian:

Hi, sir. Thanks for taking the question and congrats on a good set of numbers. Very glad to see the growth and the asset quality turnaround. Most of the questions have been answered, just wanted to clarify a little bit more on yields, specifically because you mentioned the daily and the two-point average couple of times. Just to clarify, on both yields and on cost of borrowings,

or on yields, the daily average is a materially higher number than the two-point average. This is what you are mentioning, right?

Rajiv Sabharwal: Yes.

Vikram Subramanian: While on cost of borrowings, it is not as much of a delta. Is that the right understanding?

Rajiv Sabharwal: No. There is obviously on yield the delta is higher than cost, but the delta exists in both places.

Vikram Subramanian: Yes, exactly. So, on a daily average basis, the yield fall is much lower than the cost of borrowing fall?

Rajiv Sabharwal: Correct. Yes, yield fall is lower than the cost of fund.

Vikram Subramanian: Got it. So just extrapolating that mathematically, I know it will be difficult to quantify, but just asking directionally, if I extrapolate that just mathematically, 1Q or 1H yields should see a reversal immediately just based on that. Is that the right understanding?

Sandeep Tripathy: Vikram, can you come back on the question once more? It's not very clear.

Vikram Subramanian: Because the daily average of yields is higher than the two-point average of yields, 1Q yields on a two-point average basis should be better than 4Q yields, right? So meaning I'm saying there should be a reversal in the two-point average number immediately, assuming everything else remains the same. Obviously, we have just started 1Q, but assuming everything else remains the same, that's how it should move, right?

Rajiv Sabharwal: Yes.

Vikram Subramanian: Got it, sir. Just wanted that clarification because there is just quite a bit of movement, but also your explanation was quite concise on that, but just wanted to clarify it a second time. Thank you.

Rajiv Sabharwal: Thank you.

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

Rajiv Sabharwal: Thank you so much and thank you everyone for joining the call. I think from our perspective, a lot of good things happened in FY26 and we were happy that we could meet all the guidance which we had given. In fact, the way we ended the last couple of quarters, we do believe that the opportunity for us to grow and to move towards our guidance in FY28 is very strong.

In between, this whole thing on the war has happened, we do believe that in certain segments we need to be more cautious and we are already doing so. But despite that, we believe because of our presence in almost all products and opportunity to add some new products too, plus the opportunity to expand geographically, we are well placed to meet the guidance which we have given. Thanks everyone for the faith which you have placed on us. And I just want to tell you that we are all working towards keeping up that faith. Thank you so much.

Moderator: Thank you. On behalf of Tata Capital, 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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