



“Bajaj Finance Limited Q3 Financial Year 2015 Results Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Bajaj Finance Limited Q3 FY 2015 Results Conference Call, hosted by JM Financial. 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amey Sathe from JM Financial. Thank you and over to you Sir!

Amey Sathe: Thank you. Good afternoon everyone. Welcome to Bajaj Financials earnings call to discuss the third quarter results. To discuss the numbers, we have on the call, Mr. Rajeev Jain, who is the CEO, Mr. Pankaj Thadani, who is the Chief Compliance Officer and Mr. Sandeep Jain, who is Head of Investor Relations. May I request, Mr. Rajeev Jain to take us through the financial highlights subsequent to which we can open the floor for Q&A session. Over to you Sir!

Rajeev Jain: Thank you, Amey. Good afternoon to all of you. Overall you may have seen we have already uploaded the investor presentation for the current quarter on the website. Hope you managed to access it. Overall pretty strong quarter for the company, I would say in the first three quarters of the year. This is overall being the strongest quarter. Numbers were largely in line. They are pretty secular.

Total income grew 37%, profits grew 33%, loan loss grew 37%. The biggest highlight I think was the new customer acquisition, which was of 59% for the first time in the history of the company. We acquired 1.5 million customers in the current quarter. It looks likely that we could be touching 5 million new customer acquisition in the current year as a company. So, pretty strong quarter on all dimensions is what I would really say.

Getting into the details a little bit, I am referring to the management discussion page of our investor presentation, which is in slide #16, externally environment still not looking good at all. I think overall October was a good month, but I would say pretty strong month but followed by that November and December the demand virtually collapsed across categories. I think it was a little bit of (indiscernible) 2.38 for December, but I think in general, November and December, the momentum was again down significantly.

Reflects in the banking credit, I mean, bank credit growth is at historical low of 10%. We understand private sector banks got at 8%, deposits are growing faster, reflection in every markets deployment and as a result bond market borrowings easing for us. Auto sector some momentum, we are beginning to see. As I said two-wheelers for nine months have

grown 12%. We as Bajaj organization has grown about overall the sector has 12%, passenger vehicle 3% for nine months and commercial vehicles at -7%.

We think real estate sector, it was a worst performing asset class for the previous year gone by. Some of the micro markets like Delhi, probably have connected upwards of north of 20%, markets like Delhi, markets like Chandigarh but otherwise, I think it has been one of the least appreciating year for real estate as an asset class.

Business-by-business on page #17 consumer durable business had its best ever quarter. There are 1.2 million customers. The good thing it has contributed one by demand outlook, which grew only 15% to 18% is what our estimate is in the current quarter but I think we banked heavily on our existing customer franchise and went out and ended significant amount of repurchased promotions for our good performing existing customers and that resulted in a very, very strong growth.

Lifestyle financing business, which we started virtually now this is the fourth year, it is expected to be looking like a business. We acquired in the last quarter 125000 customers. It has become a full blown business. In fact, this business also has two parts. There is digital products, which is a very, very large business within lifestyle and furniture and other ancillary businesses, we have now separated that as a business and as a strategy so what used to be a CD business has now consumer durable business, digital product business and lifestyle financing business.

So, one building block in a 7.5 year period we have actually created into three building blocks and each one of them is a million accounts new business in the next three to five years time as we go forward from here.

Cross sell momentum, which is the DNA of the company remained pretty strong. Salary personal loan business continued to grow well. It continues to be very strong on credit quality due to our very sharp focus on customer segmentation. Rural lending business having invested for the last 2.5 years the business has now started to really move the needle. We are now clocking 55 to 60 Crores of monthly disbursements in rural lending. We are just entering Karnataka as the third state. Two years ago we started with Maharashtra. This year beginning, we went to Gujarat and now we are going into Karnataka.

Parallely, we have created a new business in the company of MSME rural lending, which will go live on April 1, 2015. So, we think directionally we are in the right place to grow rural as a strategy, the product suite, the talent backing it, and the products backing it if that is required is firmly in place for it to be a 100 Crores net income business model in the next three to four years time.

Business loans business which is business loans to SME continued to be very strong, given some secured nature credit is of very important dimension, so the business continues to perform exceedingly well. It is a 7.5 year business for us and continues to do very well. Mortgage business, let me first take externally and then come to it internally. There are also three parts to the mortgage business. The business remained in hypercompetitive mode owing to very little bank credit growth. All non-banks, all banks everybody wants to do mortgages. Everybody wants to do LAP. The business which used to be 18 months ago at 13% IRR business apple for apple from a credit quality standpoint today is at 12% whereas there is not that means there is clear margin compression in the business.

Given that 17 to 18 people are doing this business the right thing to do is to create differentiation in the business. That is external to the mark to us. Internal to us we had an episode in May, as a result we are in consolidation mode. We are creating sharper sales rigor we are creating much more differentiation from a product standpoint and as a result, the balance sheet growth of LAP business has been close to around 25% to 27% versus the balance sheet growth of the company at 40%.

It could further slowdown a little over the next few quarter before it starts to regrow again sometime from the July quarter. The self employed home loan business continued to grow steadily but again margin compression is very strong there as well. Salaried home loans business we are growing, but we are trying to find an optimal and in efficient way to grow the business so we are doing volumes but not really material at this point in time. We think both the home loans business as the interest rates environment eases the trigger for mortgage business will be easing of interest rates environment if the interest rates are cuts are deep, which I believe they ought to be then you could really see the mortgage start to pick again.

LAP business given that capital markets have done exceedingly well grew delivered its strongest ever performance for the first nine months of the year. You know LAP business clearly demonstrates how our diversified business model has continued to come in handy. A business on which where we were growing 25% to 30% year-on-year this year the business has grown virtually 100% year-on-year, so clearly seizing the opportunity remaining nimble and being diversified continues to help company strengthen its business model.

Construction equipment business, it is now less than 200 Crores portfolio. Whatever is the loss projected in the business has already been built into the nine months P&L. So there is no worries rest on construction equipment business anymore.

In the commercial infra business clearly the sectoral stress is not eased in any given manner. Things I would say are either where they were or they are probably worsened in the last

three to six months. We have only eight accounts. We continue to watch them carefully and continue to play by the year at this point in time on those accounts. The overall portfolio is less than 1%, just about 1% of the portfolio, so it is not material in nature, but they are big accounts in a given quarter if they were to split they could cause numbers to move.

Gross NPA and net NPA moved marginally sequentially on account of some accounts flowing from in the mortgage business both in LAP from bucket four to bucket six though do not see any cause of worry from in terms of credit quality, but that is the reason movement in gross NPA albeit small in nature. Interest costs continue to remain very strong. We have seen some level of easing in the bond market borrowings in the last 65 to 70 days. So clearly even if the interest rates were to be cut I do not foresee a very immediate impact from a P&L standpoint for the foreseeable period but clearly things have reached 35 to 40 basis points in bond market borrowing. We have moved our mix as a result. Our mix used to be 53:45, and it has actually moved to 47:53 as a result of to ensure that we will continue it on an efficient treasury.

Employee satisfaction continued to remain at ever high given the strong growth in the company and our ongoing strong momentum in the company. Two points, I missed, FD we continued to work on diversification of the liability profile. We acquired 190 Crores of FD in the current quarter and we are continuing to thread along cautiously to ensure that we and the last point the work on building a wealth management business as an anchor product of FD is work-in-progress and we launched our wealth management business in a full-fledged manner by May 1, 2015.

The last point, I missed two-wheeler business which is 11% to 12% of our overall balance sheet continued to not do that well. It is on page 12 of the investor presentation. That along with the infra business is probably the only (indiscernible) 12.50 for the first nine months of the year. In that business two-wheeler business continues to do quite okay. The three-wheeler business is the one, which has given us some level of grief from a credit quality standpoint.

So that is really the summing of the quarter for you. Overall, I would say a very strong quarter for the company on all metrics. We are open for any questions.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the Manish Oswal from KR Choksey Shares & Securities. Please go ahead.

Manish Oswal: Congratulation on a good set of numbers. Strong performance most of the lines. Couple of questions; one is on your growth in some of the high yield segment like two-wheeler, consumer durable, PL, salary loan, and small business loan. We have seen this time, the growth is quite sharp compared to these quarterly trends so in terms of risk appetite or the demand outlook has changed materially during this quarter against your expectation?

Rajeev Jain: The answer is no. As I mentioned, let me break it into two parts. October was very strong. November and December, very weak, but October was strong enough to deliver a reasonably okay quarter. So that is one part from an external environment standpoint. The second part as I said, we estimate consumer durable industry, digital would have grown 15% to 18% in the current quarter. We banked big time using our analytics, using our franchise and went after created propositions and went after our existing franchise of 6 million customers. So let me give you a number. 42% of our monthly acquisition if you took the first two quarters came from existing customers. Last quarter, 54% came from existing customers. So, a mix of both created a very strong performance.

The third point is as important. You buy a television. You are not buying a television 12 months later, but you are definitely buying a phone, you are definitely buying furniture, you are definitely buying your watch, so we now got a product suite even within the consumer business for you to continue to be stimulated to continue to repurchase. So that has also helped us grow our volume in the current quarter.

Manish Oswal: What is your outlook in these segments going forward basically because now as you said some of the segments are reporting good growth in an environment where other segments are subdued given the competition level or the environment is not that great, so how do you see the outlook in these segments going forward?

Rajeev Jain: It is very difficult to predict. I will be very honest with you. We were quite surprised by the slowdown in demand in November and December. Have we seen some level of pickup into this year, I would say yes. Is it better than November and December? Yes, but is it strong enough? No. Can we put our finger on it at this point in time? I would say, no. So it is very difficult to state, I would be very honest with you.

Manish Oswal: I will take another question on your little market exposure. We have seen other players in the rural market players reported a very weaker portfolio growth and the reported increase in NPA whereas we have seen growth in the portfolio either the base is very small, so we can understand you have started business. The point is what are the segment we are growing and how do we see both in terms of overall profitability on a risk adjusted perspective?

- Rajeev Jain:** So the rural balance sheet is now 1% of the overall balance sheet. So it is around 300 Crores of portfolio. It is small but not small for us to not see statistically meaningful trend lines. So far it is doing much better on credit quality that we expected. So that is point one. Growth but clearly we opened in Maharashtra and Gujarat which are better performing. We are now going into Karnataka which is again better performing. Overall we are quite excited. We are backing it up with MSME rural business. We are very clear this is a five year future view. Its contribution to the balance sheet and to the profitability even into next year will not be material. It will make profits. We have just cumulatively broken as a business after investing for the last two years. Clearly it is a J-curve. We have seen the bottom. We have broken even. We will start to grow, but it will not be material in nature. It is five-year view with which we are growing rural and investing in rural. If you ask me in five-year will this be a 100 Crores plus PBT business between consumer, rural and MSME rural the answer is yes. Next year, will it be material no. Does that?
- Manish Oswal:** I got your point. Last very small data point. One is your outstanding borrowing number and break it up in banks and NCD?
- Pankaj Thadani:** The borrowing number is around 25000 Crores and the mix we have already given is 47% towards banks and 50% towards money markets.
- Manish Oswal:** What is corresponding cost of funding of these lines in the Q3 compared to Q2?
- Rajeev Jain:** At a balance sheet level things do not move that materially, but it is the short end borrowing which have corrected by 35 to 40 basis points, which is 15% of the balance sheet.
- Manish Oswal:** How has been the movement in loans yields during the quarter? QOQ movement in the loan yields?
- Rajeev Jain:** Overall loan yields other than LAP business even LAP business has not moved. So Q2 also we were at where we were, so there is no material movement in any yields sequentially, but versus a year ago, have yields moved in some of the business line mortgage yes they have clearly moved with no corresponding benefit in cost of funds.
- Manish Oswal:** Thank you so much. All the best for the next quarter.
- Moderator:** Thank you. The next question is from the line of Kuntal Shah from SageOne. Please go ahead.
- Kuntal Shah:** Excellent performance in a challenging environment. I am trying to download the presentation. I do not think so it is uploaded in the website.

Rajeev Jain: Sorry Kuntal, I assumed it is done.

Kuntal Shah: Can you share some highlights on your plans for housing finance business and what kind of customer segment and differentiation you are targeting compared to the competition around? What are your broad plans five year plans for the housing finance business?

Rajeev Jain: Five-year plan, Kuntal, we foresee mortgage business contributed by four drivers. Loan against property, self employed home loans, salaried home loans and LRD and developer finance. These are the five blocks at a fundamental level. There are different strategies for each one of them, different customer segmentation approach for each one of them. Underlying however, one thing is very clear we will only do yield with clients in these businesses where they are affluent clients and above. So there is no view on so segmentation will always remain let us use the word from a strategic standpoint 3x has got an average of the loan size of the market base. If the market is at 22 lakhs, you will always see us at a lowest common denominator level, minimum loan would be, average loan we would do will not be less than 65-70 lakhs. So, remain focused on affluent segment and above, cross-sell multiple products to them remains the approach. If we can refinance a client with a mortgage product, which is the longest sale product in the asset business then your ability to cross-sell improves dramatically. So that is the second point. Third point, we foresee there is a mortgage business forcibly and today will remain between 40% and 45% of the overall balance sheet for a foreseeable period of time. Fourth point, very tough business to make money in a systematic manner unless and until you are very efficient in the way you conduct operations. So, very easy to build assets, very tough to make money and that is really where our focus is. We want capital allocation to remain highly efficient as a process and that is why you know I could grow substantially higher in salaried home loan business today than I am doing, but I am not growing because unless and until I crack the salaried home loan business I do not want to grow it. It will make 6% ROE and the shareholder's will be very unhappy, so would I be as well. So, I think these are the four headline views, I will give you, Kuntal separately we could discuss. We can give you much briefer and a broader view.

Kuntal Shah: Any originate to sell business you have done in LAP or anything, mortgages this year?

Rajeev Jain: Fundamentally, self employed home loans and salaried home loan businesses will only be originated to self. It will only be originated to sell even today, 15% of the balance sheet in the mortgage space is down sold. As the hunger for assets in the economy picks up, we will be in a right place to originate in an efficient manner and sell in an efficient manner as well.

Kuntal Shah: Rajeev, just a last question. Can you highlight your initiatives in e-commerce space to increase your consumer durable franchise and customer acquisition?

Rajeev Jain: We do not have an experience as yet, Kuntal. We should have probably added that. We have created separate in the consumer business a separate e-commerce vertical to essentially work only with e-commerce players. So we have put a dedicated business head working for our presence in consumer business and we are casting this strategy. We hope to be ready by May-June. We are targeting hopefully a 500 Crores of new acquisition next year through e-commerce companies as we get into the next year if the partnership works.

Kuntal Shah: Thanks. All the best going ahead. Thank you.

Moderator: Thank you. The next question is from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma: Good afternoon Sir. Congratulations on good set of numbers. Just on the outlook path for the mortgages piece you had mentioned that real estate has been weak given we expect some sort of the real estate class will go through the same pain. Can we grow at the same pace at which we still have grown in FY 2014?

Rajeev Jain: Fundamentally, our relative size of mortgage business to the size of the business remains very small. We have to just make sure we grow right. Even if to the point as you are making and I think it is an important point. There are two dimensions. One, mortgage businesses work inversely proportion to rate cuts. Cuts start mortgage business will grow. So that is point one. So that has to start. As it starts even otherwise, I think it is a long tail. It will take nine to 12 months. So will we see continued softness in the mortgage business in the coming years, yes, but as I said going back to point one, our related size remains small, but by March, we hope to crack the economic model and salaried home loans. We have been working on it now for the last 15 months. By March, we expect to create far more optimized self employed home loans both these would grow. I think LAP is going to take longer to grow because there are too many people in it, who want to do this business, but even that we will grow but grow slower than these two. Combined you could see mortgage business grow hopefully north of 25% even in the next year is what I would expect at this point in time unless and until things turn dramatically for worse from an external environment standpoint as we still as we speak.

Ashish Sharma: Given you expect 25% for the mortgages piece we have been on the upper end of the guidance for FY 2015, the sustainable number going forward would be closer to that 25% or there maybe sort of an uptick in metro we could do better than that?

Rajeev Jain: Budget and rate cuts are going to determine. Are we ready as a company? Yes. Do we have strong momentum as a company across asset classes? Yes. Do we have

the talent bandwidth? Yes. Do we have the capital? Yes. The external environment could grow much more strongly.

Ashish Sharma: On the capital part, I think in the previous call, you had mentioned about may be in a six months time we may like to sort of a capitalize ourselves a little more now has the plan been put on backburner or what is the status as of now?

Rajeev Jain: Look fundamentally that's also dependent on what is the growth forecast is. If our growth forecast is that if we have the rate cuts, if we have a growth during this budget, the economy catapults because that is what you need now, you do not need a normal sloping growth curve, if the economy catapults we will gone in and raise capital, but if the growth orientation is weak in the broader economy then we would not need for a 25% growth we would not need capital for maybe even six quarters.

Ashish Sharma: Thank you and all the best for the next quarter.

Moderator: Thank you. The next question is from the line of Kethav Shah from Anand Rathi. Please go ahead.

Kethav Shah: Congratulations on a good set of numbers. Sir first of all can I have the disbursement number?

Rajeev Jain: Disbursement number *"yaar, yeh isai hai, humne, is quarter usko dena bandh kar diya hain, and dena bandh isiliye nahin kiya ki humare ko kuch," "we have stopped giving the disbursement numbers from this quarter and we have stopped it not because of,"* it was "partially misrepresenting". Let me give you what I am saying. Any business which has an anniversary and which gets rebooked so let us say LAP business or a PO business or a flexi, do not hopefullly that we have in LAP business and self employed home loan business, when it gets rebooked the system shows it as a disbursement. This does not reflect the true position from as a statement of fact. We wanted to in fact change it in the April. We did not do it. That was one of the reasons. So I can give the number, I have no problem, but it is not representing the true state and that is why we have stopped sharing in for no the reason but that. I will give you example. *"Agar main publish karta to woh number 11000 Crores dikta. Aap kehtein hain ki Sir, woh 48% growth hain, magar woh 37% hain. Material nahin hain, isiliye humne dena bandh kar diya."* *"If I*

publish it, the number would be 11000 Crores, and you will say it is 48% growth, but it is 37%. It is not material and that is why we stopped giving it.” There are people on the call they would have asked us separately since you raised it I might as well settle the debate.

Kethav Shah: That is it from me. Thank you so much.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment Advisor. Please go ahead.

Bharat Sheth: Congratulations Sir. Sir we have set up a separate subsidiary for mortgage business so what is really a game plan where do you see our size in say down the line three year in mortgage business what is the reason that we have?

Rajeev Jain: Five years from now the balance sheet would look like 45000 to 47000 Crores probably yes.

Bharat Sheth: Sir but that requires a different kind of because the asset liability mismatch is a little longer period compared to our other business. So how do we really plan to raise up capital for that?

Rajeev Jain: No, see today out of Rs.30000 Crores, the balance sheet 14500 Crores in mortgage balance sheet.

Bharat Sheth: So that we would not grow over three times?

Rajeev Jain: Exactly. Will we be able to? See fundamentally today we have become a company which set of low yielding assets, low risk assets and high risk assets. Now we say capital allocation methodology as a result as we go in size could become much more clearer to investors, if I say low risk assets which are large, which are in general mortgage assets are in a different subsidiary and as a result they have a different gearing versus high risk assets in a different company with different gearing. So we have reached minimum economic size in the company to evaluate at a fundamental level a subsidiary structure to pursue it. That is the reason we have gone out and we did 100% sub at this point in time.

- Bharat Sheth:** Sir and second thing kind of customer bank that we have so are we planning to grow fee side income like distribution of the product for financial product and all?
- Rajeev Jain:** Yes we are launching of wealth management business by May 01, 2015 largely focused on there are three new channels that we are creating. You will hear from us soon in the next hopefully with the results of current quarter.
- Bharat Sheth:** Sir last question that Bajaj Life Insurance have we taken over their distribution business?
- Rajeev Jain:** Yes we have corporate agency relationship with them.
- Bharat Sheth:** So how do we see in growth at that area since they have discontinued with bank insurance and they are bending lot on Bajaj Finance?
- Rajeev Jain:** So we work with various insurance partners, in the health insurance space, general insurance space and in life insurance space so we continue to grow our life and live general and health insurance business quite well. I think as long as the overall company continues to grow and the franchise continue to grow you will see continue to growth in fee income as well.
- Bharat Sheth:** Thank you. That is all from me.
- Moderator:** Thank you. The next question is from the line of Pritesh Chedda from Emkay Global. Please go ahead.
- Pritesh Chedda:** If you could tell us the average loan size in our loan book?
- Rajeev Jain:** The average loan size is by line of business, we published that in slide #12 of our investor presentation, where you will essentially see ranges of loans you would see let us say two-wheeler business had average ticket size is 45000, consumer durable is 28000, lifestyle business 35000, personal loans 5 lakhs, business loan is 18 lakhs so on and so forth.
- Pritesh Chedda:** Second in the call you mentioned that the durable industry should have growth about 50% to 70% in the quarter is that the number which was quoted?
- Rajeev Jain:** Yes that is correct.

Pritesh Chedda: When you say durables you will include white goods, electronics. Electronics in the sense it is phones and laptops?

Rajeev Jain: No phones and laptops is outside of it.

Pritesh Chedda: So it is pure white goods.

Rajeev Jain: White goods and brown goods.

Pritesh Chedda: Do we do financing for phones and laptops as well?

Rajeev Jain: Yes we do. We have Apples. I would say last month we were the largest financier for Apple is what I would think. Samsung as well so we are a reasonably large contributor now they have premium high end phones.

Pritesh Chedda: If you include what would that category would should have grown at?

Rajeev Jain: That is in the lifestyle financing category for us as a company.

Pritesh Chedda: So lifetime category industry should have growth at what rate the way you gave for durables?

Rajeev Jain: My sense is there are many moving parts in that because we in that space straddle only in 15000 and above segment, which is only 15%, 20% of the overall market. Of course the numbers are mammoth. They are huge, huge numbers. That industry is 2x if not more the size of the consumer electronics industry. The space that I am talking about 15000 plus growth would have been tepid, overall growth would have been might hence is if we had online, offline everything would have been probably 30% is what my sense is.

Pritesh Chedda: 30% growth?

Rajeev Jain: Yes, but it is very difficult to pin it down because there are set of guys would only online. I am straddling from 5000 to 50000.

Pritesh Chedda: Looking at the product financing side, I am just trying to look at from a five-year perspective what product categories further can be included for financing which could be a business opportunity for you?

- Rajeev Jain:** Furniture is a very large block. We have a furniture financing business there in the consumer business. We are growing it. We have now separated into a separate business run by business manager. It is the second largest category in United States if you look at the sales financing business after the new electronics. Problem in India it is largely unorganized in nature. So as organized retail builds as we crack the unorganized code we could see could that business in terms of value terms we have large five years from now as consumer electronics maybe yes.
- Pritesh Chedda:** Any other area, so durables, white goods, brown goods is known now two-wheeler is known?
- Rajeev Jain:** The white goods, digital, furniture, two-wheelers, mortgages, personal loans.
- Pritesh Chedda:** No, within product financing, let us say if you restrict yourself to product financing like durables anyway, so where all it can be extended so we know it is already covered durables is covered, lifestyle products is covered, vehicles are covered now, furniture is the next option. Another option you can think of?
- Rajeev Jain:** Sorry.
- Pritesh Chedda:** Jewelry, watches?
- Rajeev Jain:** There is some work-in-progress you guys will hear about it in the second quarter of the year.
- Pritesh Chedda:** But let us say from a five-year perspective on the business opportunity side if you could name it?
- Rajeev Jain:** Once we are ready with the economic model and the business it could change the way plastics are used in the country let me just put it this way mildly. We will crack the business model.
- Pritesh Chedda:** I am hazarding a guess, can watches be a part of it and can jewelry be a part of it?
- Rajeev Jain:** No, please do wait to hear from us in two quarters from now.
- Pritesh Chedda:** All the best to you Sir. Thank you.

- Moderator:** Thank you. The next question is from the line of Mangesh Kulkarni from Almond Global Securities. Please go ahead.
- Mangesh Kulkarni:** Thank you for taking my questions. I just wanted to know about the recent news items regarding the Bajaj Group investing in some MFI Ujjivan Finance. So are we investing through Bajaj Finance or it will be through Bajaj Finserv?
- Rajeev Jain:** It is through Bajaj Finserv, Bajaj Holdings and it is really from where the investments are made and you must speak to Sanjeev on the same.
- Mangesh Kulkarni:** Okay, and are we going to utilize their infrastructure for our rural foray?
- Rajeev Jain:** At this point, in time it is a pure investment. I think that is really how I would put it. If there are always partnerships whether with investments or with noninvestment available, if there is merit in doing the partnership and finding distribution and product expertise, synergies to play on. At this point in time, it is a pure investment, investment being made by Bajaj Holdings and Investments.
- Mangesh Kulkarni:** Sir we are also launching rural SME so what kind of this may target businesses will be in the SME segment there?
- Rajeev Jain:** Largely we will start with businesses with LAP so fundamentally the businesses that we do in urban markets with a differentiated product proposition and credit orientation is what we will launch in rural markets. So you could see the LAP business loans and self employed home loans being launched in these markets subject to the business model delivering rightful blend of minimum return on equity.
- Mangesh Kulkarni:** Sir in terms of our projects loan business which we are now paused we have paused and we are reducing the exposure, was there any restructuring during the quarter?
- Ashish Sharma:** No, none.
- Mangesh Kulkarni:** Okay and any reduction in the previous restructured portfolio?

- Rajeev Jain:** It is a judgmental view at this point in time so we are hoping that this environment starts to return and things start to improve, has there been a deterioration, no, has there been an improvement now.
- Mangesh Kulkarni:** So we are currently at the pause in this category of business?
- Rajeev Jain:** The infra business will remain in pause being sort of stopped for a reasonable period of time.
- Mangesh Kulkarni:** Construction equipment?
- Rajeev Jain:** This is stopped and we have dialled down the entire unit. We do not foresee getting into the business again ever.
- Mangesh Kulkarni:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Sheetal Agarwal from Smart Investor. Please go ahead.
- Sheetal Agarwal:** I just want to cross check this fact earlier in the call you talked about your e-commerce business and that you are looking at tying up and probably an acquisition. Some this of the effort you had mentioned just wanted to little more clarity on that?
- Rajeev Jain:** You will have just wait to hear from us on that. It is work-in-progress at this point in time and we are creating a rightful business model, which is beneficial to us and to the e-commerce company. We hope to launch this business sometime between May and June of the next fiscal.
- Sheetal Agarwal:** So basically your strategy would be organic and inorganic route in this segment?
- Rajeev Jain:** No we are going to partner, strategy would be to partner with the e-commerce companies through the franchise and our partnerships with the consumer manufacturers and try and stimulate their sales.
- Sheetal Agarwal:** Thanks Sir.

- Moderator:** Thank you. The next question is from the line of Aadesh Mehta from Ambit Capital. Please go ahead.
- Aadesh Mehta:** Good afternoon Sir. Congratulations on an excellent set of numbers. Sir just wanted to know in terms of our wealth management business what kind of profitability are we budgeting from in the next five years or so?
- Rajeev Jain:** The wealth business, the way we are looking at it will largely be a distribution of financial products business. Do not foresee to be a big contributor to the net income but to be a big contributor to the wallet share of the customer and so wallet of the customer, wallet share of the customer and as a result refinancing of the customer, but the profit that you may will be highly ROE accretive, may not be large and material in nature but it will be ROE accretive because there is no capital requirement.
- Aadesh Mehta:** Okay so it would be used mostly to retain our existing customers?
- Rajeev Jain:** Retain, grow the wallet of existing customers. That is really what the approach would be.
- Aadesh Mehta:** Thank you.
- Moderator:** Thank you. The next question is from the line of Janvi Guradia from Motilal Oswal Asset Management. Please go ahead.
- Janvi Guradia:** Good afternoon Sir. Congratulations. Sir in the beginning of the call you mentioned that we are doing some differentiation in product side as LAP is concerned could you elaborate on the same?
- Rajeev Jain:** Fundamentally, directionally, let me just give you some texture. The three areas that we are working on, we are directionally taking a walk towards. One is walking towards what we call a relationship management orientation with the client. That will weave into the earlier point that I made the question that was asked on wealth products. See our focus in businesses in LAP has largely been to super affluent customers. Their wallet is much larger than the wallet that we service at this point in time. We service only in two ways today. We service with them the LAP. We service some business loans and we service limit insurance

products. We are expanding the scope of that. So that is one. Second, we are offering them products like flexi which allows them to save and twist. They can pay when they want and they can withdraw when they want so it would virtually work like a checking account. That is a product that has been there for the last three years. It contributes to around 7%, 8% of our book but we want to grow that substantially. Fourth, we fundamentally are working the direction where we want to stop giving loans. We want to start getting lines to our customers. It creates greater efficiency in the way we run the loan book, it improves the credit operations cost structure so that is the directional change that we are making weaving into the relationship model. Lastly, we are starting to grow the contribution of our tier 2 markets, which are defined at 15 to 50 markets, where we are present in the LAP business, in a systematic manner to start to see, because all competition out of 17 majority of the business today whether for us are the most people comes from the top 15 markets. So these are three four areas that we give you headline view that we are working and driving which should hopefully give us a far more stronger business in the forthcoming quarters.

Janvi Guradia: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Sayantani Bhaumik from Pine Ridge. Please go ahead.

Sayantani Bhaumik: Congratulations on good set of numbers. I had a few questions, just wanted to know the share of unsecured loans if I look at it seems to be going up over sequentially?

Rajeev Jain: That is correct. In the current quarter it has gone up. That is correct.

Sayantani Bhaumik: Just trying to understand what is your thought process there?

Rajeev Jain: No there is no thought process. Clearly because mortgage businesses have grown slowly and commercial has grown slowly that is the only and we are not seeing on lagged metrics in anyways I look at the unsecured business of ours, we are not seeing any it is at ever best businesses that we have done for 7.5 years, we are seeing them ever best, both put together as cost debt, we remain committed to 18%, 19% of the valuation coming from unsecured and the balance coming from secured you will see that mix move. Let me just qualify just one more point as I

mentioned earlier. I am not chasing that metric. I want the metric to be an outcome I could have easily done salaried home loan business at 10.25% and till then and done three years the number and delivered you 82, but that would have troubled me much more than this. So I just want to make sure that our focus is on input rather than on the output whether metric is good or bad whether metric is a wrong metric to publish but it is a right thing to do we will do what is right thing to do. That is what I want to give you that headline view. So you will see the change it is what my sense in the next two quarters.

Sayantani Bhaumik: Change in the sense?

Rajeev Jain: Get back to 18%, 19% and 81%, 82% mix.

Sayantani Bhaumik: Second thing, you mentioned that the home loan model you are trying to be probably looking to crack it by say March or April, I am just trying to understand what will change between now and March which will make it work?

Rajeev Jain: Fundamentally, the whole issue in those and especially in home loan businesses operating cost, you got to crack the right operating cost structure because the margins are very thin. It is high velocity. You just have to crack the code and that is really what we are up to and there is significant amount of all being done actually across the company on reengineering the way we do businesses because if the economy is going to come back to what your street says it is going to come back to then we got the much more battle ready and at that point of time will not be a time for us to create focus on efficiencies. So we are focusing on efficiencies across the company at this point in time to squeeze cost out and there is lots of work that is being done across the company to squeeze lots of cost out, deliver velocity as a result because as we optimize our cost structures and the way we conduct our business should help us grow better at a lower cost in the forthcoming years if the growth was to come back. On the other hand, the growth was not to come back any which ways is that I seeing to do to take out cost.

Sayantani Bhaumik: The last thing which again probably dived down with operating efficiencies. I just trying to ask on what percentage of your disbursements would probably be linked to other online loans order?

Rajeev Jain: We today offer online personal loan, online home loans, online loan against securities, in personal loans 16% to 18% comes through our website and he applies and gets approval. In salaried home loans this last month it is 20% virtually in LAP it is very small at this point in time we just change the way the model works it should hopefully grow so we see that especially in the salaried space which is personal loans home loans online could be a very big play and we have been investing it over the last three years. It is one of the ways to optimize cost because acquisition cost is a very large dimension in our overall Opex. So it gives you an insight on the direction that we are taking even on cost optimization just this example. What most people do Sayantani just as a last point, if they go to e-commerce distributors so they were to go to the Bank Bazaar and so on and so forth and their ride on their engines and pay them commission then no difference between offline and online. Online defined as I pay nothing to originate, just because he came through an aggregator and I paid money is no different from a offline distributor so that has been our approach it is a tougher part, but it is a much better path to work.

Sayantani Bhaumik: The last question you mentioned that you are looking to partner with the e-commerce group. Do not you already have some sort of a tie-up for a certain loan product?

Rajeev Jain: No we do not have any.

Sayantani Bhaumik: Thank you.

Moderator: Thank you. The next question is from the line of Kuntal Shah from SageOne. Please go ahead.

Kuntal Shah: Just a quick comment on the loan against securities growth and the environment and risk management in the current scenario?

Rajeev Jain: Let me give you a texture. RBI came out three months ago with a list of 885 securities and they said not more than 50% I had to delist only six companies. I offer loans against securities against only 550 company's number one. Number two average blended LTV for us even at that point that was 45%. Number three so clearly external market checked on tested us on our credit orientation in loan against securities it did exceedingly well. We saw one week ago 900 points

dropped we have had to “not sell,” sell very little if at all and the focus Kuntal is on high networth clients that is really the focus.

Kuntal Shah: But Rajeev the absence of any broking or mutual fund franchise in your bouquet does not it put you at a disadvantage to likes of Kotak and HDFC with world?

Rajeev Jain: *“Bazar bahut bada hain, boss. Hamare ko itna bada aaplogo nain bada kar diya hain, “The markets is very big, boss, and you have all made us so huge.”* Look at the market as a percent of GDP, there is a huge market. It is a great asset class which if it is monetized for SMEs and for investors is a great asset class, if monetized for if I was to used to word, pardon for speculators, it is a bad asset class so market lending is a darker side of it loan against securities is a brighter side of it, Rs.100 of assets give Rs.50 against it, run your operating risk right you are in a good business and choose your scripts well, have a strong risk management factors it is a good business to you.

Kuntal Shah: Is Bajaj finance running any capital market related activities in the near future two, three years?

Rajeev Jain: None, in near future none in long-term.

Kuntal Shah: Thanks.

Moderator: Thank you. The next question is from the line of Kaushik Krishnan from Centrum. Please go ahead.

Kaushik Krishnan: Good evening to you Sir and congratulations for a good set of number, my question to you with respect to I just want some clarity with respect to the customer acquisition you have done this quarter how much of the figure if you can repeat please?

Rajeev Jain: 1.53 million customers.

Kaushik Krishnan: Earlier on the call, you had mentioned that three-wheeler vehicle financing has given some pain, could you elaborate and what is your strategy in place to revive the same business?

Rajeev Jain: I will give you texture while Bajaj Auto three-wheeler sales have grown, we have degrown 30% - 35% so clearly unlike captive lenders, we have demonstrated yet once again that is the focus is clearly on building healthy strong sustainable businesses rather than pursue chase volumes so I think that is point one I must make. Second point, it has troubled us and as a result we have degrown. We will hopefully come back to grow sometime in the next year as we go forward from here. Have our loan loss provisions for nine months contributed in some measure by that, yes could it look better in the next year, would it look better in the next year very much. So I think that is really what our view is.

Moderator: Any more question Mr. Krishnan?

Kaushik Krishnan: No that is all from my side. Thanks.

Moderator: Thank you. As there are no further questions I would now like to hand the floor over to Mr. Amey Sathe for closing comments.

Amey Sathe: On behalf of JM Financial, I would like to thank Mr. Rajeev Jain and the senior management of Bajaj Finance and all the participants for joining us on the call. Thank you and good bye!

Moderator: Thank you. On behalf of JM Financial that concludes this conference. Thank you for joining us. You may now disconnect your lines.