



## “Bajaj Finance Limited Q3 FY17 Results Conference Call”

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**MODERATOR:** **MR. KARAN SINGH – JM FINANCIAL INSTITUTIONAL SECURITIES LTD**

**Moderator:** Ladies and gentlemen, good day and welcome to the Bajaj Finance Limited Q3 FY17 Results Conference Call, hosted by JM Financial Institutional Securities Limited. As a reminder, all participant lines will be in a 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 will now hand the conference over to Mr. Karan Singh from JM Financial. Thank you, and over to you, sir.

**Karan Singh:** Thank you, good evening everybody and welcome to Bajaj Finance's Earnings Call to discuss the third quarter results. To discuss the Results, we have on the call, Mr. Rajeev Jain who is the Managing Director; Mr. Sandeep Jain – Chief Financial Officer; Mr. Rakesh Bhatt – Chief Operating Officer; and Mr. Pankaj Thadani – Chief Compliance Officer. May I request Mr. 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, Karan. Good Evening to all of you. I would be referring to the presentation that we have updated on the Investor section of the website. If I may jump straight on to slide number 12 of the presentation, overall company had a reasonably good quarter, given the huge event risk that happened, which is demonetization.

Company ended with 57,605 crores of assets and a profit growth of 36%. For the second time in the last two quarters, we have crossed 500 crores in PAT. In a quarter, company did record 2.9 million loans in the quarter that that went by, which was 35% year-on-year, new loan origination growth. Total income was at 32%. From a growth standpoint, assets grew 33%. Gross NPA and net NPA remained very steady on a year-on-year basis, because last year we were on 150 days past due. The gross NPA number was 1.47%, It has come in a year later, again at 1.47%. The net NPA was 36 basis points, it has come in at 39 basis points. So I would say both from a volume standpoint and from a credit standpoint, the quarter despite the huge event risk of demonetization has gone off quite okay.

The important point to note is that the consumer business grew well, it grew by 47%. The SME business grew 10% on account to two measures, one on our cautious view because we don't know whether there will be a structural change in the way SMEs conduct business. And two in general, SMEs were busy managing their monies and as a result, the overall demand also went down. The commercial and the rural business grew 46% and 122% respectively. So overall I would say, the quarter has gone off quite well for the company on most, if not all metrics. Just one last point before I open the floor for questions is that company also sold 92 crores worth of mortgage NPAs, mortgage and business loans, majority mortgage and on cash basis which improved the gross NPA and the net NPA number. This is the second time company has done that. Last year third quarter also the company had done a very similar exercise and we have done that again in this year.

Lastly, RBI had given a special dispensation to use, to push out the NPA recognition by 90 days. The company looking at its lines of businesses other than two-wheeler and three-wheeler was not impacted and thus decided not to exercise the relaxation that was extended. Just two slides before I open it.

Slide #15, which essentially represents the growth that we had in 19 different lines of businesses. As you can see, the growth remained reasonably granular in nature, loan against property de-grew by 4%, as I said, on account of; one, cautious view; two, the overall repayments was much stronger than usual, because customers were paying into their accounts and then they paid down their debts. So, it just an account of these two reasons. Infra is the other red that you see, but that's virtually down to 200 crores of portfolio across four accounts.

The last slide that I want to refer to is the gross NPA, net NPA slide that is on page number 35. As you can see the growth, the previous slide represents growth. Slide 35 essentially represents how by portfolio, the gross NPA, net NPA and the provisioning coverage is. As you can see, if you also did a comparison on a quarter-on-quarter basis, it has essentially remained reasonably stable other than I must articulate. In the previous quarter, if you would have seen two wheeler and three wheeler was a green, it turned yellow. It was the only business, which saw material deterioration in the gross NPA, net NPA and the current portfolio composition that's also represented on slide 32, which what was green until previous quarter as a result of demonetization, actually didn't even turn to yellow, it turned red. We have seen this business now for last 10 years since I have been here and we have done this for 29 years as long, as old the company has been. We don't remember seeing 84% current portfolio, at least in the last 10 years, I have not seen. So it's clearly been a significant deterioration, not caused by the company, essentially caused by as a result of the event risk of demonetization. I think that largely covers very quickly the point that I had.

Last point I do want to cover before I state and it may even be there as a question is that we did share on 7<sup>th</sup> of December, the collection efficiencies by lines of businesses. In general, I would just say that volumes have returned, values have not returned, collection efficiencies are not as yet fully back to where they were pre-demonetization. So, that's the only thing to watch for in some of the portfolios, which have self-employed linkages. And we don't know the outcome, we just have to watch and monitor, because there is no empirical evidence of something like this.

So we just wait and watch. With that, myself and the management team members here, we are ready to take questions.

**Moderator:**

Sure. Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Nikanth Haria from Antique Stock Broking. Please go ahead.

**Nikanth Haria:**

Sir, the question is more on the two-wheeler and the three-wheeler space. So when we look at the growth, we see that sequentially there has been a growth of around 10% or 11% in that

portfolio, but at the same time collections have not been up to-date. So would it be a fair conclusion to make that the demand for two wheeler financing is very much intact, maybe it has gone up because of demonetization, but at the same time collections are not happening because of whatever problems our customers may face?

**Rajeev Jain:**

So it has not just happened in two wheeler, three wheeler, it has happened in consumer durable to all products. But the important thing for you to note is that absolute demand has gone down, okay. It had gone down very drastically in November, came back to an extent in December, is closer to normalcy in January, but the penetration, the finance penetration went up. So that's really how it has played out on volume. On credit, one we should know it's a secured business. Two, clearly this is the only business where we deal with what we call a below mass customer. The reason you see the impact, actually the impact is there only in two wheeler and three wheeler finance and not in any other line of business because that's the only line of business and we have stated it in the past, where we deal with below mass customer. So customer at the margin has got impacted much more than customer who has more means. So, that's the reason the impact on two wheeler is more. People would ask, is reliance on cash is more? That is not necessarily fully correct. If you see our rural lending business, cash didn't reach rural markets, everybody knows that very clearly, but that has seen no deterioration. If I take you to just slide number 34, rural lending portfolio was 98.53 and 98.82 if you see last 8 quarters, 9 quarters. It has remained absolutely steady. Even its collection efficiencies have not dipped in the rural lending business because we deal there in this business other than two-wheeler with a mass affluent customer, they were not impacted materially by demonetization.

**Nikanth Haria:**

Okay. So you mean number one that, the financing proportion has gone up, maybe it was 30/70 before demonetization, after demonetization it was 50/50, like you know 50 out of 100 bikes.

**Rajeev Jain:**

It was 46.

**Nikanth Haria:**

Okay. So that has gone up substantially from 30?

**Rajeev Jain:**

Absolutely.

**Nikanth Haria:**

Okay. So for the coming quarters would we stop growth in these two wheeler business because maybe you said, in the 10-year we have never seen such kind of collection shortfalls in this or we think that this is more of a temporary problem and the overall two wheeler business remains an attractive business for us?

**Rajeev Jain:**

No, so there's no question. We have seen multiple cycles in this business over the last 29 years, okay, let me make that point. So business remains very attractive. Our acceleration was slowing down, the business is determined by the credit performance. If the business does not improve its credit performance in the next, let's say, as things return to full normalcy and we do not see recoveries improve, can we, should we, will we, slow down the pace of growth?

The answer is yes. But if the credit performance improves, will we continue business as usual?  
The answer is --

**Nikanth Haria:** I think we can repossess...

**Rajeev Jain:** Yes, absolutely. So as I said, I mean as Atul, who is our Enterprises Officer was saying, it's a repossessable asset. If you repossess faster, book the loss and move on, we will do that. So we are monitoring not just in two wheeler, across all portfolios and data will determine what our stance will be and not our view on the business.

**Moderator:** Thank you. Next question is from the line of Rajesh Kothari from Alfaccurate Advisors. Please go ahead.

**Rajesh Kothari:** My question is, can you just give us some highlight on your cost-to-income ratio, because in some quarters it goes up to 44 and then it reduces to 41. I understand it must be also due to the product mix as you move more into probably high IRR business. So it will be good if you can just give some color on that.

**Rajeev Jain:** Yes. See OPEX to NIM has two dimension, one is OPEX and net interest margin. We have seen improvement in net interest margin in the current quarter because of lower cost of fund. Also what happened in Q3 is, we booked lots of consumer electronic and self-finance business wherein the income gets accounted upfront so that bumps up the net interest margin.

**Rajesh Kothari:** In first and third quarter?

**Rajeev Jain:** In the first and third quarter. Similarly, on the OPEX side, I think given that because of this business, I think your point is correct that operating leverage comes in also from product mix point of view. More contribution of self-finance businesses do give us leverage on the OPEX to NIM side.

**Rajesh Kothari:** Which gives us more leverage in?

**Rajeev Jain:** More self-finance business gives us leverage on OPEX to NIM side.

**Rajesh Kothari:** Self finance. Okay. So basically from your cost perspective, if I may ask, can you just tell us that on absolute basis without considering interest income and net interest expense, I am saying below that, below NII, what kind of cost increase one should see on annual basis?

**Sandeep Jain:** OPEX to NIM, as Rajeev had mentioned in past as well, we do target a number of close to about 40%, 41% on a go-forward basis. That's the only thing that we communicate. Segmental information, we don't communicate at all.

**Rajesh Kothari:** So you are saying the long-term cost-to-income should be around 40%, 41% that's what you are targeting for?

- Sandeep Jain:** Yes. Rajeev did mention, I think in previous call as well is that if you want to, we can bring down cost-to-income ratio to as low as 36%, 37%, but in that case, we'll have to make compromise in terms of not being able to make investment for next level of growth.
- Rajesh Kothari:** Understood. So this 40, 41, is it safe to assume over next 12 months on an annualized full year basis, you can have 40, 41?
- Rajeev Jain:** Yes, vis-à-vis. The answer is yes.
- Sandeep Jain:** (+/-100) basis point.
- Rajesh Kothari:** On a full year basis?
- Rajeev Jain:** On a full year basis.
- Sandeep Jain:** Quarter may move but on a full year basis, the answer is yes.
- Moderator:** Thank you. The next question is from the line of Sunil Thirumalai from Credit Suisse. Please go ahead.
- Sunil Thirumalai:** A couple of questions. On the consumer durables last quarter, you had kind of sounded out cautious and said that, there will be a few months of slowdown, we did see that slowdown here. So now, where are we right now on that and what's the outlook?
- Rajeev Jain:** So outlook is that as I had mentioned then that, we take this decision, which we took in September end. We'll wash off the cholesterol by February, March and we should be back in a growth mode. It has exactly played out the way we envisaged it to be, we internally metricized some of these portfolios in red, yellow, green. We have seen the reds turn into yellow, and we think by March, they should turn into green. It's playing out. This is despite the demonetization things have played out exactly the way, in a reasonable manner that envisaged it to be. So we should be out of the woods in the digital product financing business in this and in the CD business in the next three months and we should be back on a growth mode. Of course, that growth has to take into account, what is the year-on-year growth has been, so that we are all on the same page.
- Sandeep Jain:** Sunil, just to add statisticals to what Rajeev had just mentioned, I think in quarter two, we delivered close to about 34% growth in consumer electronic business on a Y-o-Y basis. If we look at the commentary that we have given, the growth for the quarter has been only 12% - 13%. So that talks about the cut that we have taken in the electronics business. Of course, demonetization impact also comes into picture.
- Sunil Thirumalai:** Right. And the next question I had was, how should we think about how the P&L got impacted by this 92 crores sell down that you have done?

- Rajeev Jain:** No impact. It is already provisioned for, rather there is a gain, which goes and doesn't sit in the P&L, goes and sits in the contingent liability. As Sandeep is telling, it is a gain of 3 crores, not material.
- Sandeep Jain:** So we were largely provided for the haircut that we had to take in the sale down transaction. We ended up recognizing 3 crore of gain.
- Sunil Thirumalai:** Okay, got it. Sir, and just going back to that two-wheeler, three-wheeler question. So it's actually surprising that when Bajaj Auto had for the full quarter, flat to down 20%, if you look at two wheeler or three wheeler segments, you had really fairly strong growth. So I mean, it doesn't seem like just that, the non-cash or the unfinanced portion went out I mean you actually seem to have gained short market share. I mean just wanted to ...
- Rajeev Jain:** The answer is yes. The answer is not just true with Bajaj Auto. I am saying the answer is true of our digital products, the answer is true of furniture, answer is true of mobile, but it's not a happy situation, isn't it, that off the small base, I have a larger base, is not a happy situation to be in.
- Sunil Thirumalai:** No, but the question is, because you said that in two-wheeler, three-wheeler where you highlighted as one place where there was stress last quarter?
- Rajeev Jain:** No, not in two-wheeler, three-wheeler, that's not correct. We had highlighted consumer durable and digital products.
- Sunil Thirumalai:** No. You have shown falling collections in two-wheeler, three wheeler you just mentioned.
- Rajeev Jain:** Not in last quarter, not in last.
- Sandeep Jain:** That was the demonetization impact.
- Rajeev Jain:** In December month, yes. Not in last quarter.
- Sunil Thirumalai:** Okay. It was only in the one month?
- Rajeev Jain:** Yes. It's only in the December.
- Sunil Thirumalai:** It is immediately post demonetization, for month is what we have shown.
- Rajeev Jain:** Yes. Absolutely.
- Moderator:** Thank you. The next question is from the line of Roshan Chutkey from ICICI Prudential Asset Management. Please go ahead.

- Roshan Chutkey:** Just wanted to understand the capital consumption during the quarter. How much have you consumed in the breakeven?
- Sandeep Jain:** We have consumed close to about 200 crores, 250 crores worth of capital, but given the fact that we have also got warrant money from the Bajaj Finserv, which is 306 crores, 307 crores that has ensured that the capital adequacy doesn't go down.
- Roshan Chutkey:** All right. And any plans, when are we likely to do a capital raise in this case then?
- Rajeev Jain:** June, not earlier than June 18.
- Moderator:** Thank you. Next question is from the line of Sameer Kulkarni from Vantage Securities. Please go ahead.
- Sameer Kulkarni:** Sir, strategically I just wanted to check what you did differently in this period of demonetization that led to the market share gain and growth we have seen in this quarter?
- Rajeev Jain:** Now, it's an important point and see fundamentally we take pride in the fact that we run active risk business. So in a reasonable manner on the 9th of November, we didn't have much to cut other than a few calls that we took, which we talked about between November and December to the street where we took a view that in the luxury real estate there will be issues, we took a pause in the commercial business on MFI lending, because we said we will wait and watch. We took a pause that any developer financing that incrementally we do, we took a pause, otherwise we didn't have much to stop. I think it's only when difficult times come like, it was one of the biggest black swan event that could happen to our industry, that's how efficiently are we running a business becomes clearer. So clearly the only thing that the company has done in a reasonable manner is to make sure we optimize on the business side and we collect efficiently on the risk side. We didn't have too many risk decisions to make. We didn't have to pull back from weaker areas, so as to say that we had identified, but we had not taken a call on.
- So, and if you go back, as I talk to this, we had shared, we had guided the street, that we have tightened, even prior to demonetization we have taken a call that despite being festive season, we are pulling back on segments in CD business. Now just imagine if you have not done that, let me make a point that the growth would have looked 40%, but with demonetization, the credit cost impact of that in March - April, may would have been very severe. That's exactly the point I am making. So I think that we are in the business of risk, we were running the business prior to demonetization as an active risk business, event of demonetization proved to us that we must continue to manage this business. That's really all I have to say.
- Sameer Kulkarni:** So on a longer-term perspective over 3 to 5-year period, so how do you see the AUM growing of company?



- Rajeev Jain:** I continue to maintain with anything, without anything a 25% balance sheet growth and a 20% net income growth on a sustainable basis for the medium-term will happen, I mean, we are quite comfortable and confident of their growth.
- Moderator:** Thank you. Our next question is from the line of Ravi Naredy from Naredy Investments. Please go ahead.
- Ravi Naredy:** Rajeev, thanks for a fantastic result in such environment. It seems no impact of demonetization to our working and I can say, a great management can do it. And you have done it.
- Rajeev Jain:** Thank you.
- Ravi Naredy:** Sir, loan given against the property, LAP, sir if I bifurcate in the salaried employee and an SME, which one is better one?
- Rajeev Jain:** Sir, clearly self-employed customer in general is, you have to break it into two parts. Risk is lower. But adjusted for risk, the returns are also lower for salaried. So we have to do both, we have to lend to salaried, we have to lend to self-employed. Pricing is different for both. So that's really how it plays out. So there are different risk, they are priced differently, they are managed differently, so it's not one for the other, we have to do both and we continue to do both.
- Ravi Naredy:** Okay. And sir, tie-up with RBL Bank, what is that, if you can focus something?
- Rajeev Jain:** We have launched co-branded credit card with RBL Bank and it's a strategic partnership that we have embarked on and we think it could be hugely beneficial for us and for RBL Bank in the years to come.
- Ravi Naredy:** What will be our income?
- Rajeev Jain:** Those I am unable to share them in public domain, they're also listed company. But as the income comes, we will talk about it. We just entered into partnership right now.
- Moderator:** Thank you. Next question is from the line of Ashish Sharma from Enam Asset Management. Please go ahead.
- Ashish Sharma:** Just two questions. One on the loan against property and if you see the bucket performance, the asset qualities, I mean, is this pristine, I think given the concerns on the street, on the segment. But do we sort of foresee or see some lagged impact in terms of asset quality for this fiscal?
- Rajeev Jain:** Absolutely, yes. The answer is, yes. Let me make a point Ashish, not just on LAP. We are monitoring that all self-employed clients whether the impact is transitory or just structural. So whether it is even a personal loan, cross-sell given to self-employed on one hand, which can be a 2 lakh loan or a 5 crores loan or 15 lakh business loan or a 3 crores loan against property or 2

crores self-employed home loan, we are watching and monitoring these self-employed portfolios closely. The collection efficiencies has improved versus November to December to January, but they are still lower than where they were pre-October. Now, we do not know at this point in time, whether it's transitioning or it's structural. If it is structural, it can lead to higher credit cost until we readjust the model over a period of next 4 to 5 quarters. But, we are watching, we don't know.

**Ashish Sharma:** So that being the case, do we see that we were expecting this two transition to a growth phase maybe faster than earlier?

**Rajeev Jain:** Yes, so I mean in a way, we were at the end of our consolidation phase in the loan against property and self-employed home loan, we were still doing more than 2.5 crores, 30% of our loans were more than 2.5 crore loans. We have essentially from 8th of November paused them. Not taking a cautious view, the growth would have been better if we had not taken that decision, because we have further pruned 25% of the business, effective by middle of November, by 20th of November, we took that decision on a preventive basis, but that meant 20% of the loan against property, new acquisition we put a pause on, in loan against property and in self-employed home loan. So as we become confident, as we gain some degree of comfort that it's transitional, we will go back, but if it's structural, it will take us longer, but that's fine, I mean, we'll take longer to create the next level of growth in these two businesses.

**Ashish Sharma:** Okay. And sir, second for the self-employed home loans, I mean given the massive rate cuts you have seen from the other players, do we see that this kind of IRR, which is anyways already low, can we sort of maintain or some thought process on that, sir?

**Rajeev Jain:** So we have seen cost of funds go down. It's a perfect market. So it would pass through, some part of it has passed through. I just want you to in a reasonable manner know that lots of this advertising is headline rate. Offered to ...

**Ashish Sharma:** The best of the best customer.

**Rajeev Jain:** Yes, best of the best of the best customers. So the blended number for any institution is eventually very different from the number that gets advertised. Pankaj, you wanted to say something?

**Pankaj Thadani:** Good news is they won't have restriction from withdrawals on credit overdraft...

**Rajeev Jain:** Fantastic, I was going to say that, I mean, Pankaj is just mentioning that RBI has just removed the whole lot of stuffs, withdrawal limits. We were waiting for this metric...

**Pankaj Thadani:** On current account, cash credit accounts, over draft accounts. Limits on savings continue, but will remove it and limits on withdrawal from ATMs has also gone.

- Rajeev Jain:** For so far, current account, which is really what I wanted. Savings don't matter at all. So that's where we are Ashish, actually that was one of the metric that I had that if the normalcy of withdrawal and deposition doesn't normalize, we may see a greater structural impact. I said this on media as well today. Somewhere I got heard maybe, I can argue. I think it is great news, to prevent, to protect the SME sector in India I would say.
- Ashish Sharma:** Yes. This is one clarification. I think in the results this other operating income which we mentioned, I mean 462 crores for nine months, is it a fee income or is it an interest income, because little the number is quite high, I think early we were treating it just purely a fee income or ...
- Sandeep Jain:** So this includes penal interest that we charge to the customers, defaulting customers. This includes money that we made by maintaining the cash surpluses, which is the cash flow management, gross block number. We also have some fee revenue pool which is ancillary to our core business. For example, we do credit protection plan distribution for our partners and we also do comprehensive care product on mobiles and so on so forth. Those incomes also sits here.
- Moderator:** Thank you. The next question is from the line of Manish Shukla from Deutsche Bank. Please go ahead.
- Manish Shukla:** Good evening everyone, and thank you for the opportunity. First on loan against property, the deployments during the quarter are up almost 50% Q-o-Q from 800 odd crores to 1,200 crores. That in an environment where concerns around that segment is highest, doesn't seem like a very cautious approach. So wanted to know what gives you the confidence that the risk is less there and which parts of the country is this growth coming from?
- Rajeev Jain:** Yes, as the previous person raised the point, Ashish, that we were coming back from a two-year consolidation. So in a way out of this 1,228 crores, let me tell you, 502 crores was just in October, so in a way 500 crores dropped to 350 crores in between November and December. So that's first point. We have guided prior to quarter three that we are coming back and as he rightly outlined that at 99.12% current portfolio, we are back in a growth mode and which is where we have been for the last four quarters. So it's not just the current quarter. So we have now pulled back 25%, 30% of the business. So as I said to you that if 500 crores became 350 crores, so that's technically we took out exactly 31% of the business on a monthly basis. Otherwise this number would have been 1,550 odd crores. So that's our view to cautious, let me make a point.
- Manish Shukla:** So I mean would it be fair to assume that a run rate of 1,200 to 1,400 crores per quarter would continue in this business the way things stand?
- Rajeev Jain:** 1,400 to 1,500 crores if the book doesn't deteriorate, will continue, the answer is yes.

- Manish Shukla:** Okay. And on slide number 15, the average ticket size that you gave, that I believe is the incremental ticket size, right?
- Rajeev Jain:** That's correct.
- Manish Shukla:** Yes. So the LAP ticket size has gone down to about 1 crore in this quarter compared to 1.35 crores the previous quarter?
- Rajeev Jain:** Yes. The answer is yes. It will go down further, probably to 80 lakhs and that's where it will stabilize.
- Manish Shukla:** All right. The next question is on two-wheeler and three-wheeler. Now in two wheelers, you market share in Bajaj Auto is almost 45 and in three-wheeler 29. Is there an internal cap beyond which you would not want to go?
- Rajeev Jain:** So look, adjusted for demonetization, the number has been between 28% and 32%, 33% now over the last nine years. This is an event over which we can't put a number. We think if the normalcy of the sales resume, it will come back to 30%, 32%. It can be 100 to 150 basis points here and there, that's all it can be. We have seen that's exactly where it has been between 27% to 32%. In fact, 32% is the outer side. It's largely been between 27 and 32. This number is an outlier is what we believe as we go forward from here.
- Manish Shukla:** And one last question if I may? During this whole digitization one expects higher financial savings and higher electronic transactions. So on a normalized steady state basis, let's say two to three years out, does your target product mix between consumer and SME, does that change meaningfully in terms of how you want to approach these business segments?
- Rajeev Jain:** So, the first premise has to play out. Then the conclusion will be that.
- Manish Shukla:** Assuming that happens?
- Rajeev Jain:** Assume that happens, you should assume the answer is yes, but it's a big assumption is all I would just say to you. I think we are some distance away from some of those structural changes that we are talking about. Is it a step in the right direction? Answer is yes. Is it a big change? Answer is, it will take very long time. We started a journey, we haven't ended.
- Moderator:** Thank you. We have the next question from the line of Adesh Mehta from Ambit Capital. Please go ahead.
- Adesh Mehta:** So sir, what we are seeing is that your disbursement growth has been at around 6% on a Y-o-Y basis this quarter, right?
- Rajeev Jain:** What does that mean? What does 6% mean?

- Adesh Mehta:** Absolute on a Y-o-Y basis, say December '16 versus December '15, your absolute disbursements have grown by around 6%. So, sir, with January almost gone by, what run rate are you seeing now? Definitely it must have improved from these levels. So what run rate are we seeing now currently?
- Rajeev Jain:** So as I said, have we seen normalcy of volumes? Yes. Have we seen normalcy of value? No. So now let me give you example. So let's say consumer durable finance. The average ticket size, let's say if you were doing X in January last year, has that grown in a healthy manner on January-to-January, yes. But for the last nine years, we have seen that ticket size is Rs. 27,000. We are seeing for the last two months and January is a marginal improvement but not big, we have seen it at Rs. 25,000. So in a way, there is volume growth, value growth is still lagging. Now the only theoretical conclusion we can come to is as a result of a big psychological event that this was psychological and real event that it was, people are only buying what they need. So in consumer durable stores, the penetration of mobile phones has gone up and TVs has down. So if he wants to buy a phone he needs it, that's when he is buying. He is not buying TV because he says, what is the point in buying a TV right now, because he is not in a mood to buy. The mood is not great. So the net effect has been lower than it would have been prior to demonetization, not in terms of volumes, but in terms of values.
- Adesh Mehta:** Right, right. And so would your experience be similar in small business loans or other segment?
- Rajeev Jain:** Yes, answer is yes. So doctors are not borrowing, they are one of the best performing segments in small businesses. Professional loans, you see 60% growth, it looks great, but growth was 85% in the previous quarter. So everybody is saying what do I do with the money right now. So we have taken a cautious stance in some of the segments and so have the customer. That what else we do with the money. So I think as Pankaj raised that as these withdrawal limits go away, as things return to full normalcy, consumer has not changed, the country has not changed, they get some confidence booster, some degree of stimulation on February 1. We will be back to usual course of growth and we don't have any baggage as a company in terms of credit. So we are in a right place and a right position to leverage that.
- Adesh Mehta:** Okay. And sir, like in terms of small business loans, we are seeing that actually, they have been very flattish on a Y-o-Y basis. So sir, should we expect the segments to revert back to their (+40%) growth levels going forward?
- Rajeev Jain:** We are watching dependent on data that emerges in terms of credit performance. We are out here to grow business because we think it acts as an engine of growth. It creates investment opportunity, but not at the cost of credit. So it's fully determined by data emerging.
- Adesh Mehta:** Right. But sir, we are not seeing any early delinquencies as well, right in this segment?

**Rajeev Jain:** Not as yet, but we are watching and monitoring. I am not saying it may happen, but I am just saying for SME businesses, it's too early for a call.

**Moderator:** Thank you. We have the next question from the line of Kuntal Shah from Sage One. Please go ahead.

**Kuntal Shah:** Just two questions. You have said that you have 37% of borrowing from banking system, 54% from money market and 9% from FD? Can you give a texture of how the lowering of cost or the uptick when it comes, how does it flow through your P&L and to the customer? And secondly, you have mentioned that in LAP you're doing some mortgage reengineering, can you highlight what do you mean by that?

**Rajeev Jain:** Yes. So fundamentally on point one, on a year-on-year basis and where G-Sec was and where G-Sec is today, we are essentially seeing, so there are two parts to this. If we created a truly transparent pricing mechanism which means that we make a point instead of 37% banking, today banking markets, if I had 80% banking market and let's say I had 20% FD, we know that our cost of funds would be lower, so that we're all on same page. But it then creates once in five years when freezes in money markets happen which last happened in 2013, creates tremendous pressure on the system. We take enough risk, we don't like to take liquidity risk. And as a result, we like to maintain a much more balanced and diversified borrowing book. That's how 37% of the book is from bank. We know it's the most expensive means of finance for us. It's even more expensive today than retail deposits. Fully loaded cost of retail deposits for us is now lower than bank funding. So in a longer-term horizon or a medium-term horizon Kuntal, you will keep seeing retail deposits go up and you will see bank financing go down. So that's one part I want to leave you with.

Second, 50% of our book is fixed interest, 50% of the book is variable interest. On 50% of the book, the NIM expand. On balance 50% of the book, in a reasonable manner, as I said earlier, the transmission mechanism is safe to assume for 20% will be fully transmitted and 25% will be 50% transmitted. So 50% no transmission, 25% full transmission, 25% half transmission. So net-net, if cost of funds are down 50 basis points on a sequential basis, the borrowing cost, you could assume, a 15, 17 basis – I am just giving you ballpark numbers, 15 basis points, 17 basis points transmission and its 33-35 basis points sales. Does that address your question Kuntal?

**Kuntal Shah:** Yes. But what is the duration of bank borrowing average?

**Rajeev Jain:** Now in general we run longer liability maturity than asset maturity on a blended basis, because of the mix of the assets that we have from eight month assets to our average maturity being four months in consumer durables to let's say six years' average maturity, five, four years average majority in LAP and so on and so forth, we run longer liability maturity than asset maturity. Do I know that? The answer is, yes. Can I take a more aggressive stance on it? The answer is, yes. Have we ever taken an aggressive stance in the last 10 years given the

liquidity? The answer is, no. Are we likely to take in future an aggressive stance? The answer is, no. So then I make my position clear.

Now coming to mortgage reengineering, I think it's a low margin business, it's reasonably commoditized business, the efficiency of cost management essentially represents profitability. That's really what the best institution in the mortgage business stands for. So we continue to reengineer the way we conduct our mortgages business. We see it is as a huge engine of opportunity in the years to come. If the balance sheet is to virtually double every 3.5 years, is this likely to be a large component like it is today 32%, 33%, could it be larger? The answer is yes. So we are continuing to reengineer cross functionally the mortgage business to create a more efficient, more optimal business, which has lower cost and higher velocity. So that's really what at a gyan level this mortgage re-engineering is all about.

**Kuntal Shah:** So where do we stand on the housing finance subsidiary?

**Rajeev Jain:** It's going live on 1st of February. We will start to book assets from 1st of February in the housing finance business. We today book, if you see on the same 15<sup>th</sup> slide, we booked 721 crores of home loans and we booked 576 crores of salaried home loans that's 1,300 crores. Out of 1,300 crores, 70% will start to get booked there, because greater than 1 crores we get SARFAESI in the NBFC. Once we get normalization, we will book everything there.

**Kuntal Shah:** And now we have a GNP of around 800 plus crores, so what are the recovery mechanisms we are putting in place. Can you give some texture, I know you have a huge product portfolio?

**Rajeev Jain:** There are four lines of defense. While Atul is here, I will. There are four lines of defense. There is soft ex-collections, which is soft customer accidental default, there is GCL which is gross credit losses, that's a separate team, that's level two. Third is NPL team that's level three, fourth is legal, that's level four. So it's a four lines of defense infrastructure from a remedial standpoint that we run as a company. We continue to deepen that. We continue to invest in capacity planning to ensure we are managing this efficiently and prudently.

**Moderator:** Thank you. Next question is from the line of Umang Shah from Emkay Global. Please go ahead.

**Umang Shah:** Rajeev, I had two questions. One was, if I look at the share of our consumer businesses on an incremental basis, it has been continuously going up and at 47% probably, we are at now maybe four or five-year high. Now given the context that we are into that two wheelers doesn't, I mean seems kind of a bit uncertain. SME and professional loans also or LAP also seems a little uncertain, is it fair to assume that we might see further expansion in the share of consumer business in the overall pie?

**Rajeev Jain:** Likely for the next one or two quarters Umang, not structurally because as I said, we are cautious, in the SME business we are watching the space carefully. So it's less to do with the

sector, more to do with us. So we are watching. As we gain confidence and comfort, we would like the mix of 35% - 37% consumer, 45% - 47% SME, 10% - 12% commercial and 7% - 8% rural. That's really what we like. To me that's what I called a modern portfolio theory model, which delivers the optimal ROE to our shareholders with optimal risk.

So that's where we would like to be. As somebody raised a question earlier on two-wheeler, 46% being penetration, I would ignore the quarter gone by and ignore definitely the current quarter. I think by the first quarter things should be looked at much more normally. We are not in normal circumstances at this point in time. So I would ignore these numbers Umang.

**Umang Shah:** Sure. So just a continuation to that. So assuming that next year when we see some normalization, obviously that will have some ramifications on our margins, but to that extent, our OPEX should help us in terms of maintaining our ROAs and ROEs?

**Rajeev Jain:** I am committed to deliver to the shareholders a 3% return on assets and a 18% to 20% return on equity. I think that's our red line view. And if we can't deliver that, we'll optimize the business model. Let me turn this other way around.

**Umang Shah:** Understand. That's helpful. Just a second question, if you could just give some texture about the tie-up with RBL Bank on the co-branded card. So I am coming from the side that, does it lead to any kind of cannibalization to our new product of retail EMI card?

**Rajeev Jain:** No, it doesn't, in no manner. This essentially will be given to our existing well-performing EMI card customers, so we have 8 -- 7 million of those. This will be given to those who have performed well with us, who have good bureau scores and with clients who have an active credit card from a bureau standpoint. So it will be given to the best of the best of the best with a proposition that they will be able to use this for all things they can use EMI card for and also use it as a Master or Visa, this is a Master, as a MasterCard for any other means and purposes. So this is -- it's going to be far more powerful than in normal credit card if I may say. And it will be given only to existing customers, the best performing ones and over a period of time could be a very, very large profit pool for both the partners.

**Umang Shah:** Okay. So just if I could just try and understand this, so does it generate a lot of fee income for us or where does the credit risk settle? Does it sit on our balance sheet or RBL Bank's balance sheet?

**Rajeev Jain:** We are not allowed by RBI to share risk and thus we cannot do that. So we can have only two means of revenue, we can get fees to sell cards and we can have revenue share. That's really how the transaction structure is defined. But as a prudent partner, we are committed to make sure that despite the fact that we don't own the risk, we own the risk. A healthy portfolio becomes an engine of growth which means it helps us to grow partnership. We are clear that potentially we could be, we and RBL together could be in the top three issuers of credit cards



in India in the next three to five-year horizon. If that's a side that we're set on, it cannot happen without managing risk well. So we are quite clear about it.

**Umang Shah:** Understand. And I am sorry to drag this a little longer, but myself as being your EMI card customer, if I also get a RBL Bank credit card, I mean what stops me from just swiping my credit card over the EMI card?

**Rajeev Jain:** No, no. It will only run through our books. That is the point. So that plastic will go through the Master switch, come into our switch and you will get your consumer durable financing.

**Moderator:** Thank you. Next question is from the line of Pramod Pandey from Reliance Treasury. Please go ahead.

**Pramod Pandey:** Just two quick questions. One was that on the employee cost has been a bit higher compared to last quarter, some color on that? And number two was, of the total consumer finance portfolio, what will be the mix of salaried versus non-salaried?

**Rajeev Jain:** Salaried customers, 67% - 68%, between 65% and 68%, balance is self-employed. Salary cost, we are continuing to invest in the next stage of growth for us as a company. You will see it at an elevated level. Hopefully, it will be backed by volume growth and that is a point earlier we were making that if 40% - 41% OPEX to NIM would take into account, the all cost rises. So it should correspondingly get supported by volume growth. If it is not, we will transform or restructure.

**Pramod Pandey:** Okay. On the bank borrowing, what will be the reset period if we are on MCLR?

**Rajeev Jain:** No, so it defers bank to bank, it's bilateral in nature. Some places, it's quarterly, some places, monthly, some place it's annual, it's bilateral.

**Pramod Pandey:** And so generally self-employed would be what percentage of the total portfolio?

**Rajeev Jain:** Very difficult to say. But safely you could assume 60% to 65% -- 60%, if you had a semi book and so on and so forth, 60%.

**Pramod Pandey:** Yes. So then we also interacted in December, and now almost January is over, what has actually surprised you both on the positive side and the negative side in terms of the system since because you are catering to varied businesses in the country. Where do you think that the pain point can continue for a longer period of time?

**Rajeev Jain:** The only pain point that's essentially on which we do not have a finger on is yet is collection efficiencies need to come back to pre-November levels. That is the only pain point, I would say to you. Rest is all manageable and not material.

**Pramod Pandey:** But spending is still back to normal, meaning ...?

- Rajeev Jain:** So as I said, volume is back, value is not back, value will also come. So I would not worry about it. What I would worry about, and when I say, worry about means, we are monitoring. I have no reason to worry because bounce rates have come down. But those who are bouncing are not their collection efficiencies are not at the same level. So I like the good of it that the bounce rate has come down. I don't like the bad of it that the collection efficiencies are down. See, it both goes together. I mean now, so I don't like the bad of it, is really how I would say. And I am not raising a red flag, I am just saying we are watching. We are monitoring and we will go by the data. That's the only thing I am watching.
- Pramod Pandey:** Right. So within the self-employed category, is there any indication of particular businesses which are suffering and there the collection efficiency has dropped quite materially or is it across?
- Rajeev Jain:** No. There is no material moment, first point I must make to you. We don't like it, this movement. So it's not material, it is not immaterial, which means immaterial means, if I had a 94% collection efficiency, let's say in SME business, I had a 96% collection efficiency, it's at 94%. Now somebody could say, if your bounce rate goes down and the reduction is 200 basis points, somebody would say it's not material, to us it is material. To deliver the 1.5% gross NPA and a 40 basis point net NPA business, to us it is material. For somebody, it may not be material at all. So that's what I mean by materiality in our context, at least for us as a company. Does that answer your question?
- Pramod Pandey:** So, any specific business where you're seeing, like just surprised you on the negative side?
- Rajeev Jain:** It was, no assumptions have played out. I think I am surprised also and I am not surprised also. So no assumptions have played out.
- Moderator:** Thank you. Next question is from the line of Mayur Parkeria from Wealth Managers India Pvt Ltd. Please go ahead.
- Mayur Parkeria:** One, very small bookkeeping question is, in commercial financing, which is around 7,000 crores of our book, what is included in, one is commercial lending and other is infrastructure lending, what are the other parts to it?
- Rajeev Jain:** So, 12, 13, 14, 15, 16. On page 15, loan against securities, vendor financing, financial institutions group and corporate finance and infrastructure lending. We will, actually we have said, we will break this, next quarter onwards we will break this for the street. We will change that, Yes. So, if you go onto Slide #15 - #12, #13, #14, #15, #16.
- Mayur Parkeria:** Okay. They are all part of?
- Rajeev Jain:** Yes.
- Mayur Parkeria:** And self-employed home loans and salaried home loans, both are part of consumer?

- Rajeev Jain:** No, salaried home loans are part of consumer, self-employed home loans are part of SME.
- Mayur Parkeria:** Okay. And the second is, I also had this question about duration and the way you're managing the borrowings part of it. You mentioned that you would not like to be aggressive and not take the liquidity risk in perspective. But then on the other side, you are also trying to highlight that we will further reduce the bank channels which is even from 37% right now. So one side, this is the thing. And the other side, what I am looking at is, with the fall in interest rates over the last two years and with the increasing competitive intensity, today every practical, every financial institute has got a consumer exposure. I understand we are far ahead in terms of technology and other competitive advantages, but then they are present in that space and they are eating into, they are actually coming into with a force because that is the only segment which is growing. So do you see on one side, there is a risk to the lending yields on this portfolio. And given that we have lower duration of assets in terms of period, what if the lending yields fall, is there a meaningful risk to the NIMs which we may face?
- Rajeev Jain:** So look, retail portfolios, NIMs don't change too rapidly. They are spread across thousands or lakhs or millions of customers. They don't change that materially that quickly. So that's first point I want to make. So they will take time. Two, I am saying that we want to increase our reliance on deposits versus bank borrowings after 3.5 years of having launched retail deposits. Today it's 9% of the balance sheet. We originally had not cracked the code, that can this beat the fully loaded cost? Fully loaded cost has three dimensions. Interest that I pay to customer, there is SLR cost, and there is cost of operations, okay, service acquisition and so on and so forth. 3.5 years later, into the business, we are seeing that the fully loaded costs of the deposit book is now lower than bank borrowing. We have far greater degree of confidence that we can do this.
- Mayur Parkeria:** No. But, Rajeev in terms of if the market situation tomorrow the risk increases in the market suppose, even this retail FD there would be a complete drying up of that?
- Rajeev Jain:** So we are not saying if either or? That is not correct. We are not allowed as a NBFC to take a deposit of less than one year. So for one year, it is locked in. Our average book is 27 months, okay. So it's an important point.
- Mayur Parkeria:** For the retail FD it is 27 months.
- Rajeev Jain:** It's 27 months. So, it is sticky money, its renewal rates are 55%-60%, It's longer maturity money. We have cracked the code on being able to raise 27 month money apple-to-apple at lower than bank cost. So you will see increase in contribution of retail deposits versus bank monies. Does that answer your question?
- Mayur Parkeria:** Partly. So broadly you don't see yields also falling for the next ...

- Rajeev Jain:** Okay. Now on yield, look retail businesses, will we see increased competitive activity? Answer is yes. Could we see if the competitive environment becomes very hot, a dilution in some degree of NIM? Answer is, yes. But could we use the operating leverage, which we have been investing in for two, four, six, eight quarters and bleed competitors out? The answer to that is also reasonably, yes. As I mentioned as Sandeep raised it, we can bring down tomorrow OPEX-to-NIM to 38%. Let me make this point. We are building business for the next five-year review. If for next four quarters, if competitive environment is very intense, I don't foresee it that way let me make the point, but if it's very intense and if we have to pull back on some of the investments for four quarters to fend-off competitive activity or four or six quarters, are we prepared and geared? The answer is yes. So I go back to the point that I made, we are committed to deliver to our shareholders a 3% post-tax return on assets.
- Mayur Parkeria:** Right. So irrespective of the change in the NIM and the spread, you have still identified levers where you will lead to?
- Rajeev Jain:** Yes, don't hold me quarter-on-quarter. On a full year basis, please hold me.
- Mayur Parkeria:** Okay. And again a very small bookkeeping question. This other operating income, somebody asked and you defined qualitatively it includes panel interest, the cash surplus income. Can you break it into broad percentages because it's growing also quarter-on-quarter at 80%-90%?
- Sandeep Jain:** So we don't publish in our quarterly basis, the breakup, but as part of annual report, you'll see the breakup.
- Mayur Parkeria:** And why should the cash surplus in return should be a part of operating income?
- Sandeep Jain:** It's other operating income.
- Mayur Parkeria:** Yes. But it's not part of other income, right?
- Sandeep Jain:** Yes, it's not other income, it's collateral to the business.
- Mayur Parkeria:** Okay. And we include that as part of the net interest income?
- Sandeep Jain:** It's up to, I think logically yes, because the interest cost is also sitting in those cases. The other thing that I could have done is, I could have repaid my bank loans or could have repaid a premature NCDs and so on so forth. Instead of doing that, we park it in investments.
- Moderators:** Thank you. Next we have a follow-up question from the line of Roshan Chutkey from ICICI Prudential Asset Management. Please go ahead.
- Roshan Chutkey:** Basically, I want to understand in the consumer durable business, with any of our operating metrics, are we doing the same amount of subvention, and are we asking for same amount of down payment from the customers, any such change in operating metrics that we are doing?

- Rajeev Jain:** Yes, so as I said, we continue to run the business on an active basis. We make changes based on the needs of the business. So it's transactional in nature, it's tactical at times. We act on an ongoing basis if that's what you want to hear.
- Moderator:** The next question is from the line of Preeti RS from Uti Mutual Fund. Please go ahead.
- Preeti RS:** Sir, just one question. Correct me if I am wrong. We do lend to certain customers in certain segments, based on cash flow assessment, right?
- Rajeev Jain:** Of course, not certain segments, all SME lending business loans, professional loans, loans against properties, self-employed home loans is based on cash flow assessment.
- Preeti RS:** So since the demonetization and going forward, have we changed our approach in lending to these customers?
- Rajeev Jain:** Answer is yes. Have we tightened the FOIR norms, especially for higher value loans, let's say 1.5 crores and above in certain segments. So let me make the point. On business loans, etc., we always ran it that way, so there is no change. In areas like loan against property and self-employed home loans, have we further tightened them, the answer is yes. We have brought them closer to the way we look at salaried, especially for higher value ticket sizes. To lower value ticket sizes, we have not changed. For higher value ticket sizes, we have changed. We brought them in line with the way we would underwrite a salaried customer. That's for a transient period. As things improve, we may go back to doing what we were doing.
- Preeti RS:** Okay. So I am coming from because, knowing Mr. Modi's stance on black money, demonetization seems to be only the first step. So have we already seen some amount of change from customers or the borrowers in these segments, let's say quarter back and after the demonetization?
- Rajeev Jain:** Too early for a call. We have to watch and monitor. I think customers are just right now sitting whatever we hear anecdotally, are just customer themselves are just sitting and doing it only that they need to do to run their business in a minimal manner. That's really what we hear from SMEs. We don't have a long-term view if I may say. They are also watching. The SMEs are also watching, so that's really how it is.
- Moderator:** Thank you very much. That was the last question ladies and gentlemen. I would now like to hand the conference back to Mr. Karan Singh.
- Karan Singh:** On behalf of JM Financial, I would like to thank Mr. Rajeev Jain and the senior management team of the Bajaj Finance and all the participants for joining us on the call today. Thank you and goodbye.
- Rajeev Jain:** Thank you all. Bye-bye. Good evening.

**Moderator:** Thank you very much. On behalf of JM Financial Institutional Securities Limited, that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.