



“Bajaj Finance Q3 FY18 Earnings Conference Call”

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MODERATOR: **MR. KARAN SINGH -- JM FINANCIAL INSTITUTIONAL SECURITIES LIMITED**

Moderator: Ladies and Gentlemen, good day and welcome to the Bajaj Finance Q3 FY18 Earnings Conference Call hosted by JM Financial Institutional Securities Limited. As a remainder, 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 the operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Karan Singh from JM Financial. Thank you and over to you Mr. Singh.

Karan Singh: Welcome to Bajaj Finances Call to discuss the third quarter FY18 Results. To discuss the Results, we have on the call Mr. Rajeev Jain – who is the Managing Director, Mr. Sandeep Jain – Chief Financial Officer, Rakesh Bhatt – Chief Operating Officer, Mr. Atul Jain – Enterprise Risk Officer and Mr. Anup Saha – President (Consumer Business).

May I request Mr. Jain to take us through the financial highlight subsequent to which we can open the floor for Q&A session. Over to you sir.

Rajeev. Jain: I have just more addition I have general council as well on the call. Good Morning all of you. Overall, I will refer to the investor presentation that we uploaded yesterday at 2 pm on our website please refer to Bajaj Finance presentation.

I must open the call saying that it is a pristine quarter. I think all matrix were actually in line, so it was very good quarter for us as a company that went by. I will limit my conversation to slide 12 and 13 of the investor presentation which essentially gives you what went, what happened and what is the direction as we move ahead from here as a company.

Very good quarter as I said total franchise came in at 25 million customers up 29% from 19.5 million customers, 19.2 million customer franchises that we had just about a year ago. Five million additions I would say is a very large number 506 million virtually is a very large number. The company booked 4.5 million accounts in one quarter. Last year same quarter we booked 2.9 million accounts. So in a way company is demonstrating that it has the technology operations and processing capability to pump 60% extra volume in less than 12 months’ time and deliver a sustained momentum.

AUM on a consolidated basis really what I will focus on, but here on you will start to hear from us every quarter BHFL and BFL will be the two separate conversations that we will do as we move ahead. The consolidated AUM for Bajaj Finance stood at tad below 78,000 crore, a growth of 35%. NII grew inline in fact stronger than AUM growth came in at 38% growth to 2672 crores. OPEX grew 37%, loan loss and provisions grew 40% and PAT grew 38% to 767 crores versus 556 crores in Q3 last year. Return on asset and return on equity remain record high at this rate we are looking at a 4% ROA for a full year basis. Gross NPA, net NPA completely in line both sequentially and on a year-on-year basis came in at 1.67% and 0.53.

Year-on-year comparison numbers would be different because last year we were reporting on 120 days that came in instead of gross NPA 1.47 we came in at 1.43 and net NPA instead of 39 basis points came in at 41 basis points. Capital adequacy has resulted the capital raise that we done. We continue to be very strong just a tad below 25%. Overall deposit franchise stood at 11% of the borrowing at 6,500 crore so that really on the financials just very quickly in nine months has been very good so far nine months asset is up 33% AR is up 35%, NI for nine months period up 42%, OPEX is up 44% and loan loss and provisions is up 46% for a nine month period and PAT is up 39%.

One matrix to consider on Slide #17, which is important is that the total OPEX to NIM came in at 40% which remained at elevated level for the first two quarters has come in at 40 you may see it marginally go up again in Q4, but next year we are reasonably committed to deliver this in the corridor of between 39% and 40%. If I give you a drift on what the non-financial commentary just as a direction for us as a company is that we are clearly moving rapidly towards separating the Bajaj Housing Finance Company as a separate entity to run our entire mortgage business. Current size out of 78,000 crores of overall balance sheet mortgage balance sheet is around 21,100 crore. So we have the run rate to deliver we think that BHFL by March 19 standpoint would just on a standalone basis would look like between 16,000 to 18,000 crores of balance sheet.

The existing stock of balance sheet will continue to stay in Bajaj Finance and may run down over a period of time, but the new incremental bookings will happen in Bajaj Housing Finance as we move ahead. It will ensure sharper focus, it will ensure that we can measure a mortgage business equivalent to mortgage business with peer group competitor and we are quite excited about building to be a very large business in the next three to four-year horizon. The leadership team to run this company has been identified from within in general largely and we will be making some announcement soon.

At a fundamental level as I step back we are now well on course to close the year at around 80,000 to 83,000 crore of balance sheet in a full year basis. We are reasonably comfortable with a nine months matrix are likely to be the full year matrix as we complete the year. When we look in our long-range plan we think mortgage business and the payment business will be the key drivers of growth from the next three to four-year standpoint. We do expect these businesses to grow faster and much faster than the BFL growth over the next few years. If you take the residual businesses or B2B business, B2C business and commercial business we think new category expansion, geographic expansion and rural business expansion will rarely drive growth in the near to medium term for our B2B businesses.

We are likely to continue to accelerate [00:08:04] expansion to fend off competitive activity and to manage our growth by 15% to 20% on a year-on-year basis. In this context if I take you for a moment to slide 16 you will see as to how we are on a standalone basis ramping up. Our distribution debt in the length and breadth of the country. Three years ago, we were in 400 locations, by 16 we were in 659 by March 17 which is 9 months, 10 months ago we were 915

and we end this year is around 1200 locations as a company, distribution footprint we went 16,000 points of sales as we can see we are now in virtually 53,500 point of sales in the last four years.

So you will continue to see significant deepening, significant granularity emerging in our portfolio as we move from here. As I said management of OPEX, OPEX to NIM would mitigate margin compression. We have invested very deeply over the last much more importantly in the last 18 months in talent and technology and we think 18,19 you will see some degree of consolidation in our management of cost and OPEX as matrix. You will see that much more accelerated in 1920. It will help us manage our margin compression better. Lastly given where 10-year G-sec is headed it is important that I anchor the point that the company manages ALM in general very well and much better in the last 12 months given the supply of long-term money was.

So we are very well placed in position in terms of managing ALM. Now this in the event of interest rate hardening is looking like in the event is going to go away given where 10-year G-sec is at this point in time and what is happened to the run up in the last four months. It is unlikely that in the event it is looking to be more like an event. We are much better placed and positioned to manage us from a P&L standpoint. In this context you may just be relevant that if you look at our year-on-year cost of funds in 2016-2017 came in under full year basis at 8.72%, 8.73%. This year nine months of the year it is come at 8.35%.

So there is the 40 basis points that you delivered in the current year. 10-year G-sec is moved 140 basis points in the last five months cost of fund short end have also moved similarly by around 100 basis points, but we are well positioned in general. Portfolio quality important to anchor remain that is record best in the current fiscal for the nine months that have gone by except some pressures that we continue to see over the two and half years in our self-employed mortgage business of LAP and SEHL so that is really the quarter gone by. Overall a very good quarter and the way it is looking like we are 10 months behind the year a very good year for the company and we are reasonably excited about getting into the next year as we step out of this year. We are open for any questions.

Moderator: Ladies and Gentlemen we will now begin with the question and answer session. We take the first question from the line of Harish Zaveri from DSP BlackRock Please go ahead.

Harish Zaveri: Just on this asset liability management which you spoke out about you have bank borrowing is roughly around 32% and your NCDs are around 46% and when I look at your AUM 12 months assets that you have roughly of 50,000 crore out of the total 76,000 crore of balance sheet. Just a perspective in terms of how are you thinking, how long are your NCDs and how much do you roll over your bank borrower and compare that to the assets that you are building on the asset side, what sort of asset liability do you look at, are you maintained your P&L is a lot safer now going forward this year, but just an elaboration of how do you look at these?

Rajeev Jain: I think the one large number on which I can elaborate on is the 26,495 crores on a standalone basis ALM that you see Harish on Slide #29 less than 2,500 crore in maturing next year. I think that should reasonably answer the question and that large part of that money has actually got raised in last 9 months, 10 months that is a significant tailwind to the point that you are asking. Sub debt is fixed so that is another that we did a record raise on sub debt what we have raised in the last if I am not mistaken in the last 5, 6 years we raised in the current year. So that money is logged in infact longer than even NCD that a 7 to 10, year money. So I am not able to see colors here the sub debt portion is 7%. So 46 plus 7 if you add up that is 27 and 4, 31,000 crore only 3,000 crore is maturing. You know 2,500, 3,000 crore is what is maturing so that gives us and on the other side we have significant fixed interest rate business and floating interest rate business corresponding not fixed interest corresponding floating interest rate business sitting there.

So, unless and until there is an interest rate shock which I could argue with you at 140 basis point movement in five months I can argue it is a shock.

Sandeep Jain: “If you look at the maturity in the one-year bucket, I think there is significant headroom that we have in terms of raising additional CPs. It should potentially mean that even in interest rising scenario, we will have ability to be able to manage COF much better.”

Rajeev Jain: That is an important point we have gone long if I may use, if I may articulate what Sandeep said exactly that we took the position to go long. We did not anticipate that the time to go short will come this quickly, but I think that is an important point that there is significant headroom that we have on CP given the short duration of the book so part of that will also get taken care off.

Moderator: We take the next question from the lien of Shubhramshu Mishra from Motilal Oswal Securities. Please go ahead.

Shubhramshu Mishra: I have two questions first is with regards to your Housing Finance business just want to understand what kind of ticket sizes we are going to look at incrementally and what are the incremental yields in it and how many branches do we plan to expand them to?

Rajeev Jain: So fundamentally look as I said we have a 21,000 crore balance sheet today. I said that we do this business in 160 cities in towns in India at this point in time today. I was just saying that we have 21,000 crore balance sheet. The segmentation focus at this point in time is remains mass affluent. Whether it will remain mass affluent or not that the management team and BHFL as a company will decide. So we will share a much more detailed plan and the strategy with our May 18 results that we come to the street with. But in general, if I may just say so we are going to put significant amount of weight, we have approved yesterday to put in additional 1200 crores of capital from BFL into the company that takes the total net worth of the company to 1550 crores. We have sufficient capital to support this business, this business could be if I may just hit a headline number could be a 60,000 to 70,000 crore balance sheet business in the next

four to five year horizon is really why we are making this strategic move at this point in time, But do we wait to hear from us by May 18 in a more detailed manner.

Shubhramshu Mishra: And my second question is with regards to your LAP portfolio your five plus bucket has gone up significantly in this particular quarter. So I just want to understand if there are any recoveries that we are expecting in what would be reason attribute to do that?

Rajeev Jain: LAP and two-wheeler are the only two yellows in the credit performance. In fact, two-wheeler is improved from being red to yellow. LAP your observation is correct from .88% 30 plus in June 17 is gone to 1.57 and the 0 bucket has moved from 99.07 to 98.27. Two matrices are important for the headline matrix which is current which is 98.27 important thing to note on a year-on-year basis this balance sheet is now actually down 5.5\$, 6%. So that is the headline matrix the good guys have gone 5%, 6% of the good guys are gone and the bad guys remain and in that we are seeing, we are continuing to see flows.

So we have done our stress test the accounts of 157 basis points of 1.57% 30 plus are adequately backed by real assets. We continue to try and sell down portfolio as well. We are doing whatever is needed to be done remedially to manage this. You are likely to see this 1.57% remain in a corridor of I would say between 125 to 160 basis points is what I would say and this is the true state of the business and that is why we are continuing to maintain a cautious stands on the business for now 2.5 to 3 years. You can imagine those were not maintaining your cautious stand what their position could be.

Shubhramshu Mishra: If you can give me the number of houses which you have repossessed in this particular quarter?

Rajeev Jain: We have repossessed totally around 30 properties, but okay that in both in home loan and LAP this would be 30 properties all together in mortgage business we have reposed in the last quarter.

Shubhramshu Mishra: And the value for the same principle outstanding is roughly 30 crores?

Rajeev Jain: 30 crores is the principal outstanding.

Moderator: The next question is from the line of Jitender Bhatia from Beyard Asset Management. Please go ahead.

Jitender Bhatia: Congratulations on a strong result again Rajeev and two questions for you. The first one is just trying to understand the degree of penetration that we have already achieved so far in the targeted segment as we define as mass affluent. So you know the pyramid the inverted pyramid that we often look at on page 15 provides the pretty good indication of the incremental growth in customers and also vertically speaking the cross sell opportunity which are of course buckets of potential top line, but I am trying to understand also how deep have we already

gone into and penetrated into the available pool as you define it numerically inside that mass affluent category.

Rajeev Jain:

This is the customer franchise with whom we have done business with. There is another 29.5 million customers over the last 5, 6 years that we have aggregated as data basis and list working with partners in the digital ecosystem that is over and above that and those customers are not our customers. Of that now when you do data acquisition you do data acquisition not knowing fully whether these customers would be mass affluent and so on and so forth. Of that running our credit models, we are willing to do business with 13.5 to 14 million of them. So, we have insight a set of 14 million customers that we want to do business with and that we are stimulating as a company to attract them to be our part of our franchise. So, if you went to our website and when if you go below on the home page and just put in your mobile number and you would get an OTP if you are one of the 30 million customers you may be able to see that this is what your EMI card limit is.

Over the next 30 days you will start to see this is what your personal loan limit is. Over the period of next 90 days you will start to see this is what your mortgage limit is. So our personal stated ambition is we think there is a 50 to 55 million mass affluent franchise in India we are that we want our customers to be we are quite far away from them we have only 25.5 billion customers that we deal with today. So the headroom is very large and that headroom is growing. If the country is growing 7.5% which everybody claims it is that mass affluent customer is growing.

Jitender Bhatia:

Sorry to interrupt you, but I just to want to ask just on that particular point what do you estimate that 50-55 million number is currently growing at sir as you measure it going back say year ago or the last two, one or two years and then prospectively for the next two to three years. What do you think that is particularly growing at that available pool that you define currently as approximately 55 million?

Rajeev Jain:

Data in this country remains a difficult one. Now we have a goal I do not even know whether the country population is 1.3 billion on a lighter range so then for them much more difficult so you just want to predict what is the size of the mass affluent population. It is our stated ambition that in 5 years' time between our customers and the prospects in India we should have 75 million customers across 2,000 cities and towns in India that we should be ready to do business within a friction less manner whether we get to 75 or not without diluting our customer segment in any given manner. So that our stated ambition and the task that we are working towards whether we get there will be a function of whether those many customers. We have then just a feasibility on 30 million today. I mean 25 of ours and another 29 million prospects.

Jitender Bhatia:

Okay just moving to the housing finance point again. So question here is you know the need to carve it out what is the special advantage of defining it separately some are obvious kind of advantages focus to the business and incentivization and better accountability, better targeting

and so on, but are there other specific impediments that you were facing so far which you believe you know are outside the obvious that investors should try to understand and secondly is there some possibility of this business eventually being spun off and listed separately?

Rajeev Jain: If the business succeeds and delivers benchmark ROE that we have defined, and the answer is yes.

Jitender Bhatia: Answer to the later question is yes.

Rajeev Jain: If it delivers and if does not delivers and anyway there is nothing to listen there is nothing to invest in. So that is point number one, but more important is not that more important is the word that you use focus I think as the company grows, the company is growing in all direction. I mean if you look at the consumer business growing 25 B2C business is growing 52 SME as a result of our caution growing 16, commercial growing 52, rural growing 113 when I look at this business in a granular detail I came to conclusion that it will be we are not running the mortgage business if I may say so as efficiently as we run lots of our businesses as. When we soul searched as part of that process internally as management even the company came to conclusion that it require sharper focus, dedicated management opportunities extremely large. We have a large balance sheet but can we more efficient so that is one part if I may expand the word focus. The second part is clearly it is lower cost of funds business.

Jitender Bhatia: You are at the cost of funds point when we got disconnected.

Rajeev Jain: 69 to 70,000 crore is going to be balance sheet in four years' time. In 20-25 basis point I mean today even for the small balance sheet if I am stepping into the bond market I am able to raise money better CP or long-term money. In a small company which are 1600 crores of asset at 20-25 basis points lower. So that is a clear advantage focus is a clear advantage leverage is a clear advantage. See we will be able to show then that the high beta business is. The net leverage of the company may not rise, but the leverage of the mortgage business because it is a lower risk business we would be distinctly visible to investors and to majority shareholders and the leverage of the higher beta business, higher margin business will be very differently visible. The net level may not change or may it change by 50 basis points here and there, but I think the separation would help create much sharper focus and create a far more efficient eventual BFL as a company.

Jitender Bhatia: And in the transition process as you provide this focus will the new entity still be able to take advantage of the existing stock as distribution presence and scale presence so that scale economies are not lost in that period of defining its independent focus.

Rajeev Jain: Yes very much. Whatever is available today will remain available except on arm length basis because it is a separate entity.

Moderator: We take the next question from the line of Umang Shah from Emkay Global. Please go ahead.

Umang Shah:

Thanks for the opportunity and congratulations to Rajeev and team for a good quarter. Rajeev clearly, we have seen a stellar quarter and a stellar year, so our profitability for the full year is going to be the highest over past five years and I think sustainability of that is pertinent to see at this time. So you have already given your outlook on margins in OPEX, I just need your comments on sustainability of fee as a revenue stream for us and on credit cost. Obviously despite transition to 90 DPD we have kind of kept our credit cost fairly under check so on these two-line items I wanted your comments.

Rajeev Jain:

You know year goes well as I said we are 10 months into the year. It will be ninth year when the company is delivered, ROE in excess of 20% okay that is on Page #8 between 19.7 to if you actually do weighted-average ROE it will look like 21% and we are well on close to deliver another (+20%) year for as a ninth year. You know most people would argue few years ago that as a size becomes larger can you sustain? I make a point only on one point which is Page #12 of the presentation 4.6 million accounts we booked a year over it was over 2.9 million with zero accident fundamentally. In originating, processing, booking, disbursing, managing the credit, managing the risk and dropping into the profit pool. I think that virtually gives you a run rate if I take this run rate of 18 to 20 million accounts next year if you process. If ever there was a confidence and our ability to generate and manage it is now because we have been investing very deeply over the last 18 odd months to do this. When I look at these numbers I cannot believe it myself just 12 months ago we were doing 2.9 million accounts in a quarter and 12 months later we are doing 4.5 million accounts. So I think our confidence is higher than it was, granularity of the portfolio is broader and deeper than it was. When I say broader in terms of geography and deeper in terms of more products that are contributing to this. So, I can say our confidence was never higher. Coming on the back of a lower credit cost gives us far greater confidence. We are in risk business right at the end of the day. We can pump these 4.6 million accounts, but what if we cannot manage them. So I think we are coming in historic low on credit quality gives us far rate of confidence just take a moment to go to Slide #21 right.

We have not seen 98.83% current portfolio in series two-wheeler you are back from the brink post-demon. Lifestyle last year we talked about it till first half of the year look at where we are, we are at a record best digital and record best personal loans portfolio very steady at record based I can argue and so on and so forth. So credit in our business is the engine of the business. You can add more compartments if you do not have credit issues. So we have a good engine in place. So that is on the momentum. I do broadly believe there are some signs of it two-wheeler, growth is stronger. Auto some people call it stronger. I do not whether sub-10% growth can be called stronger when nominal GDP is at 11% to 12%, but stronger than the previous two years. It does feel in the air a little bit that the economy is on the mend unless and until some other black swan event happens. Economy does seem to be on the mend which should act as a further propeller as we get into the next year. Retail businesses, margins will get lower and fees will get higher. What is important which I have not mentioned here is that I said payments is going to be a big driver if you go to Slide #10 for a moment BFL co-branded card with RBL already stood at 255,000 accounts in less than nine months' time. We are well on course if all

goes well to cross a million card will force as the company may March 19 which will be the fastest earlier the largest private sector lender prior to 2008 did it faster than that, but that landed in an accident. We intent to do this I have Anup, who is my colleagues sitting here he spend a long time with them. He is smiling so that is why I am giving his name. We can accelerate this faster because as I have said in the past we do this business goes only to our existing customers out of our 25 million franchise or the 14 million that you see five million people use an active credit card of the banking system today. We have scores of 750 and above, so which means it is a sitting duck, but we do not want to take that as a sitting duck. We want to build this out if the first half credit performance of this portfolio because we do origination and we also do collections at this portfolio which are the two heavy lifts on this program or partnership that we have with RBL. If the credit performance of this portfolio remains stable for a period of next seven, eight months second half of the year could be much bigger.

It further put our arms around our customer franchise in a manner that could be unprecedented and below that is the MobiKwik Wallets which were at half a million you will see that accelerating. We want to card our entire franchise of 25 million with a MobiKwik Wallet in the next two to three years' time. All these the point I am making to you Umang are fee drivers, they are very large fee drivers. We continue to sell a lot of insurance of the five insurance companies that we work with on a standalone basis are new business premium that we would originate next year, we would probably look like seven-day largest life insurers on new business premium and so on and so forth. So we are well placed it is in the DNA of the company, you will see that accelerate rather than slow down.

Moderator: We take the next question from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma: Rajeev just on that cost income ratio which we have already mentioned about that you will see some bit of operating leverage taking in just to clarify this is with the assumption that we still are in an investing phase.

Rajeev Jain: "The answer is of course yes. This is not about consolidating this is about optimizing. There is a difference, we remain a high growth company we continue to invest what happens is that company grow 40%, 50%, 60% YOY they can also accrete at an opex level a lot of waste. So it is about optimizing that and that is a natural part of the process. It is about optimizing that rather than constrain in any given manner or contain in any given manner, any investment that are important from a three to four years' time.

Ashish Sharma: This on the housing or the subsidiary so as of now the salaried home loans and self-employed home loans incrementally booked in that subsidiary these are the two verticals.

Rajeev Jain: No mortgages in the company. Salaried home loan, self-employed home loans, salaried LAP anything which is to do with mortgage as they are underlying collateral has been booked the

reason I took time till March 18 because it is a large as I said we are in 160 cities, management transition is going to happen very soon and so on and so forth by March '18 we would have fully completed the transition and the new management teams would be running the company by April 1st.

Ashish Sharma: And in this lastly, we had made I mean investment in MobiKwik as part of our BFL 2.0, any such investment apart from we have already made there is some color on that or we are more or less invested as per our BFL 2.0.

Rajeev Jain: We have 12.5% stake in the company. We are building our business with them it is less than four months, it is integral to our interface between customer and BFL to offer a one-stop solution on the payment infrastructure that we have which is EMI card, a wallet and a credit card that is a really where we are headed. We will deliver all of it by together in a single app by May, June and build it out systematically over the next few years and we are very excited about it.

Moderator: We take the next question from the line of Omkar Kulkarni from Individual Investors. Please go ahead.

Omkar Kulkarni: I wanted to ask by looking at your permanently next three to five years look good, but what can derail this?

Rajeev Jain: In our business only one thing can derail do not get greedy that all. Same applies to you guys as well. So do not get greedy opportunity is very large. We have a granular business, it is very well-diversified, stay focus on the long-term is really what the game is all about that does not mean we shall not deliver the short term, you have done that consistently over the last nine, but if at all if ever was a time the focus on long-term is to increase now because the opportunity for the long-term is larger than the opportunities for the short-term and it is our view when I say greedy let me make a simple point. The greed in our business comes from a single line which is risk. You ignore that and the business grows fundamentally that is the manifestation of greed in our business and we are committed to not leave that line.

Ashish Sharma: And can you throw some light on this Masala Bond we plan to raise?

Rajeev Jain: Just a diversification process. We have to take RBI approval subject to RBI approval we have to get a rating done and find the right timing it is a diversification of our liability profile and nothing else as a balance sheet growth it is only fair.

Ashish Sharma: Approximately at what rate?

Rajeev Jain: All entirely dependent on what time do we choose to step into the market. We would not borrow it higher. We would like to borrow at the same price at which we do NCD borrowing maybe marginally lower, but all dependent on timing right.

- Moderator:** We take the next question from the line of Sunil Tirumalai from Credit Suisse. Please go ahead.
- Sunil Tirumalai:** I have a couple of questions you know getting back to the HFC subsidiary I mean this is something which you have been saying in for a few quarters now that you want the safe home loan and mortgage businesses to grow. I was wondering I mean traditionally these are business where the other companies find it difficult to cross 18%, 20% kind of ROE is just doing home loans or just doing LAP and if this is going to become a much larger and larger share I mean how do we manage the target of 18% to 20% ROE in a long-term that we have set?
- Rajeev Jain:** Because if I go back to the earlier question Umang asked me why do we believe that the existing businesses that are staying here would not grow faster. The opportunity on them I can argue is larger than the mortgage business let me make that point. As I said we pumped in 4.5 million accounts. The payment business is going to grow far more rapidly. There is no reason for us to believe that the growth of the businesses that are sitting here they will be slower in growth so that we are clear because in some of the places we are dominant, but that need not mean that the operating leverage in those businesses will not emerge which means there is an opportunity to bump up ROE in those business, but let me summarize Sunil what I am saying. We are committed to deliver to our shareholder on a blended basis between BFL and BFHL 18% to 20% ROE that matric is not changing. Bad times 18, good times 20 management out performs can be higher than that.
- Sunil Tirumalai:** I have a couple of clarification on the slides. So Slide #13 where you have given BHFL standalone it is broken into B2C and SME in SME LAP. So SME and B2C, so SME is primarily LAP.
- Rajeev Jain:** SME has business loans, loans to professionals LAP self-employed home loans.
- Sunil Tirumalai:** No when it comes to BHFL standalone?
- Rajeev Jain:** No so what you are seeing below is mortgages. So all mortgages which are sitting in B2C, SME, rural are clustered together as what you see below as 21109.
- Sunil Tirumalai:** In the second column I am referring to 283 crore.
- Rajeev Jain:** As I was mentioning earlier we are in the process of transition. You will start to see by next year first quarter will be the right time where you will actually see all these lines wherever we are doing filled up fully.
- Sunil Tirumalai:** 283 is lowering as properly and home loans to self-employed customers.
- Rajeev Jain:** Which got booked in BHF. So some business have moved in October, some in November, December. So I would not read anything into the numbers Sunil as I mentioned earlier it is a transition phase between October to March. From April 1 which means when we publish April,

May, June quarter results you will see no incremental booking in standalone and anything to do with mortgage you will see in BHFL.

Sunil Tirumalai: You historically set the benchmark in terms of disclosures and presentation. We normally recommend other companies to look at your presentation and improve, but I just wanted to understand this is something which has happened in the past we see as well that you discontinued the disbursement figures just wanted to understand your thinking?

Rajeev Jain: No, the second order point is the order points that has caused me to go if I may say so combined numbers because we made this presentation for you guys. Our competitors are reading as much as you guys are reading and unfortunately category expansion and so on and so forth it is increasingly because it can happen that because you have grown in size others can do picking up the points and go out to market faster. We do not want that to happen so if I may use the word IPR standpoint that we have chosen to cluster these together because they are significant B2B initiatives that are in pipeline, there are significant B2C initiative that are in pipeline and so on and so forth. We were constraint to limit information on account of what we call the IPR loss. We have no intention to hide any information from investors.

Sunil Tirumalai: It is not on segment wise basis, but similar to the disbursement numbers that you will report at the past.

Rajeev Jain: Well what we will start to do probably is that once in six months or on a year lag basis we will start to share. Sandeep and we will think through and come back. So it gives you an outline but we will not give you quarterly outline. We will decide the frequency because we have done that for last nine years. There is no reason for me to take the information away if at all anything else we are in a much stronger position. My problem is competitive activity in the market place.

Sunil Tirumalai: Final question is talking about competitive activity will you hear of some of the other NBFCs, banks and subsidiaries of banks talking about the businesses where you typically have a very strong mode. I just wanted to understand how are you thinking about it in terms of your yield or subventions what that means to your growth plans that is my last question?

Rajeev Jain: We are working harder than ever and we are ready to take on competition. I think 4.5 million accounts represents a very large number that technically 18 million accounts being processed disbursed not processed you want to process 25 million accounts next year. I think it is a herculean effort for those competitors who are looking at building this out and we wish them best of luck and it will make us more efficient is all I can say.

Moderator: The next question is from the line of Mayank Bukrediwala from Goldman Sachs. Please go ahead.

- Rahul:** Just you know question again on BHFL so you have talked about the ROEs which of course is a function of RON leverage, so what kind of ROA that you have in your mind to be a sustainable ROA for the home loan business?
- Rajeev Jain:** We will put by April 1 or maybe sometime in March we have already made decision, but we will announce them shortly. We will put the BHFL CEO in front of you guys you can ask him these questions. It is work in progress is a limited point I am making. Our mortgage strategy was completely crafted in mid-November. In the last 60 days we have put together the management team structure and complete separation that we would do from BFL to BHFL. So it has been significant amount of work in progress in the last 75 days that is the reason I am saying it will be prudent to do this conversation with May Results than now.
- Rahul:** Maybe just small clarification also. So this BHFL will share the infrastructure with BFSL?
- Rajeev Jain:** Very limited because it may happen, if at all it may happen for the first year even the limited piece may happen for the first year. Let me articulate a point they will sit in their own separate head office even in Pune they will not sit with us. So that should tell you the drift of where we are headed.
- Rahul:** Interesting. The other point is just a clarification on this ALM profile that you have given is written that it is a behavioral profile, so is this on the books?
- Rajeev Jain:** This is more pertinent than just the structural liquidity profile.
- Rahul:** So this is not necessarily the residual maturity this is just a based on these?
- Rajeev Jain:** It includes prepayment, and this is behavioralized which fundamentally demonstrates the prepayments that are coming through and this is of course track by buckets as you can see below it is tracked by buckets. We track it by months as well so.
- Sandeep Jain:** So if we give a home loan for 20 years, but we see let say pay down in 5 years' time the behavioralized ALM captures that.
- Rajeev Jain:** That is the right way to capture it otherwise you will make a mistaken.
- Rahul:** So clearing the BFL, ROAs perhaps will move higher given that the home loan piece will be booked in BHFL from next year, so what would be the guided range?
- Rajeev Jain:** That would be reasonable natural conclusion.
- Moderator:** We take the next question is from the line of Himali Dhame from B&K Securities. Please go ahead.

Himali Dhame: I just wanted two data points. One I wanted to know the share of home loan and LAP in the housing finance subsidiary on an overall basis and I also wanted to know the growth rate of the new digital and the REMI business this quarter?

Rajeev Jain: Growth rate of digital and REMI business is very strong. Of course, there you must remember that you come on a small base. Their base is much smaller and what is happening at a behavioral level of a customers is that mainly customers are buying mobile. I mean that market I think the FM did the right thing by increasing customs duty. We are quite happy because it increases our SKU ticket size, but none of it manufactured in India. So I think as a country, as a nation it is a right thing to do 160,000 crore is the estimated digital products market versus 80,000 crores of estimated consumers durable market and consumers are mainly buying mobile much more than they are buying TV. Their phone today is a TV cum a phone. So everybody is using phone for multifunctional purposes. So growth rate was clearly stronger REMI businesses come on a very low base. It is a new business that we are investing for the last two and half years. So that again even lower base than the digital business. So that is two points to your second question. To the first question NHB has very clearly articulated that the majority of the business has to be mortgage business. I would request you to just wait for BHFL Management Team to come on board and share what they see the mix of the business to be by May 18.

Himali Dhame: And just one question on the two-wheeler business where you have upgraded your cautious stand on the business is that largely because of improvement on ground or because now you are focusing more on the urban side?

Rajeev Jain: No, it just improvement on in our collection performance, I think their business has had a very difficult time since demonetization because they deal with below mass customer. Given we are back to 88% current portfolio our confidence is far higher in the business. We think there is a likelihood that the business may touch 89% current book 15 months post demonetization which would bring us on track to what the historical performance of the portfolio has been for the last four, five years.

Moderator: We take the next question from the line of Shweta Daptardar from Dolat Capital. Please go ahead.

Shweta Daptardar: Congratulations on great set of numbers. My question was on the small business loans so have you actually move from your cautious stands to the growth stands which you mentioned in the previous quarter post the structural issues now standing behind demonetization is over so you mentioned, and you raise few concerns in last quarter so what is your stand currently?

Rajeev Jain: It is not changed. I think having said that are things better than there were a quarter ago. Volume application flow is better, but approval rates are down still and this is to do with our cautious stands and what we are seeing on the ground. So more working capital requirements are emerging, but approval rates are down.

Shweta Daptardar: Sir even if I refer to your credit qualities slide.

Rajeev Jain: I was just going there the point that if you see this so one) we have stated there at we were earlier not adding professional loans, loans to professionals which are business loans to professional as part of this. So in a way last eight quarter numbers have changed, but that does not matters, but what matters is even if you see 98.6 is actually still down to 98.55. Growth is stronger in loans to professionals rather than loans to businesses or business loans to businesses. So we continue to maintain a cautious stands, but I think there is light in the horizon. My sense is by September now this whole e-WayBill transition now which will start is again going to disrupt small businesses. So we will have to just wait to see if that was not happening or if it happened along with the GST transition maybe all of it would happened in one round, but given that it did not happened in the platform was not ready and the government has gone ahead now. It will be another disruptor is what my sense is.

Shweta Daptardar: Where actually was coming from is we turn from yellow to green and although the bucketing looks little volatile but fair point.

Rajeev Jain: We look at these portfolios separately. So my internal assessment on the business loan remains yellow let me make that point, but the weight of the loans to professionals in the last seven months, eight months has grown in this entire portfolio and as a result and up to last quarter if you see the Slide #13 where you used to give data you would see growth rates being higher those growth rates have remained higher and the growth rates of the BL business has remained flat on a sequential quarter basis or a probably softened a little on a year-on-year basis. So that is the mix is shifted and that is why I will say green.

Moderator: Well that seem to the last question for today. Ladies and Gentlemen on behalf of JM Financials that concludes this conference. Thank you all for joining us. You may disconnect your lines now. Thank you sir.