

Q1 2013 Earnings Call - Bajaj Finance

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Operator

Ladies and gentlemen, good day and welcome to the Bajaj Finance Q1 FY13 Results Conference Call hosted by IDFC Securities Limited. As a reminder for the duration of this conference, all participants lines will be in the listen-only mode. And there will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Ms. Chinmaya Garg from IDFC Securities. Thank you and over to you Ms. Garg.

Chinmaya Garg

Thank you, Inba, good afternoon everybody and welcome to Bajaj Finance's earnings call to discuss the first quarter results hosted by IDFC Securities. To discuss the results, we have on the call Mr. Rajeev Jain, CEO; and Mr. Pankaj Thadani, CFO of the company.

May I request Mr. Jain to take us through financial highlights, subsequent to which we can open the floor for questions. Over to you sir.

Rajeev Jain, Chief Executive Officer

Thank you, Chinmaya. Good afternoon to all of you and thank you for coming on to the call to listen to what is our view on the results of the company. You may have seen the -- we had posted on the website the Investor Presentation immediately after our Board Meeting, so some of you may have seen the copy of it. I will essentially be running I will jump straight to page 11 of the presentation that's there, essentially a brief snapshot of how we've done in the quarter, we acquired -- we reached a milestone of 750,000 customers or 0.75 million clients in a single quarter for the first time. For whole of last year we had acquired 2.2 million and in first quarter itself we have acquired 750,000 clients.

We sourced 312,000 EMI Cards, it's a new product that we launched for our consumer durable clients in 2011. We expect that this business will be close to -- we will have 1.2 million clients in EMI Cards, -- customers in force, or cards in force by end of March 2013.

Deploy advances were up, 32% to 4,728 crores. I wish the dollar was where it was six months ago and we could have actually said we did a \$1 billion of advances, but that is not to be the case. Total income was up 56% to 703 crores, profit after tax was up 53% to 139 crores.

Loan losses were down from 34 crores to 32 crores which is I think at a fundamental level one of the highlights of our performance on a quarter-on-quarter basis. Net NPA as a result was down to 10 basis points and capital adequacy, we are at 16.8%. We are reasonably well capitalized at this point in time for the next three quarters.

You may have seen some of the interviews yesterday by Sanjiv Bajaj as well that we have got management and shareholders -- we've got Board and shareholders approval to go out and raise up to 750 crores to meet our next three year capital needs. We may go out and do that in the fourth quarter of the next fiscal or sometime in first quarter of next fiscal.

What led to these numbers, essentially are from a highlight stand point I would say reasonably strong start to FY13 was on account of strong volume momentum in consumer and SME businesses and a reasonably strong credit performance across most lines of businesses.

When I say most lines of businesses, I would say eight of nine in one of the lines of businesses which is construction equipment which we have provide data in the presentation as well that our current bucket clients or percentage of current customers dropped by 150 basis point in one quarter, so that's why I say most businesses.

Consumer business continued to out-perform, we think replacement demand for Acs, a benign competitive environment and a growing need of finance to stimulate sales is an important reason why we have continued to outperform as a business in the business and have created a value proposition for our manufactures to increasingly rely on financing of premium products to stimulate sales of their products. We continue to be confident about the business, we expect, while this is our assessment, we would expect that our market share in consumer durable financing would have been at around 12.5%

Two wheeler business, we were steady, we maintain our market share at 24% of Bajaj Auto sales. As you may have seen Bajaj Auto domestic sales hasn't grown that much in quarter one and we essentially support Bajaj Auto, we being a captive lender support Bajaj Auto's sales efforts. So that business was largely steady, it hasn't grown in that sense that much in quarter one on a year-on-year basis.

Personal loan cross sell and salary loan business remains strong in the consumer business. We've done no geographic expansion in quarter one as a company in either consumer, SME or commercial lines of business given the environment the way it is, we'd rather focus on portfolio monitoring and growing our existing pieces than to expand coverage or any new product line, we already launched a new product line which was Lifestyle Finance in April this year, it's just 90 days of that business. That also sits as part of consumer business, out of 4,700 crores of lending that we did in quarter one, it was close to 25 crores of lending happened from that business.

So it's very early days at this point in time and we hope to be doing between 225 crores to 250 crores of lifestyle financing in the current fiscal. On SME businesses, which essentially constitute mortgages, which has loans against property and home loans for self employed, business loans and loans against securities, we've continued to grow in a healthy manner. Business loans component of the business is actually, while it has increased we are growing the counter cyclical business in business loans like doctors loan given what's happening in the environment.

Commercial businesses, clearly that's a business which is -- parts of those businesses are in the eye of the storm, given -- so, we are clearly in a cautious mode. I've been saying for the last nine months that the two parts of those businesses which is construction equipment and Infra fundamentally have structural issues that's become very prominent in the previous quarter. So on a year-on-year basis the construction equipment disbursements were down 30% due to both slowing of demand and our internal view on slowing the business down given the structural issues that we see. On a full year basis we've taken a view that this business will be in a hold AR mode. It's a two and half year old business. So whatever is the -- and it's a three year loan that we give.

So the average book is 18 months, 19 months, 20 months. Whatever is that, triting is what we are adding at this point in time and I think for the next balance of the fiscal the business may remain that way largely.

Infrastructure has slowed more considerably than construction equipment, there were no new sanctions in this business in Q1 given what's happening in the external environment on the infrastructure side.

For vendor financing, it was a stable quarter, they grew their book, but we expect that the term loan financing in this business in the first half will remain soft, given that overall auto sector is slowing down to single digit growth, so the new capacity expansion in auto component industry may not happen, at least for the first half of this year. May be by second half as the visibility becomes clear there may be opportunities in this space. So right now we are focusing on working capital financing in the business that from a demand stand point rather than the term loan side of the business.

Interest cost continue to remain significantly lower due to our conservative ALM in previous years. Our cost of funds curve is now trending down, our cost of funds on a pro forma basis is down last quarter, on a sequential basis down by 7 basis points, 8 basis points between quarter four last year and quarter three, sorry, quarter one of the current fiscal. So I think as pass-through happens, as transmission increases we should see some level of softening on the interest cost.

In variable businesses like mortgages et cetera, we have started to pass through interest rate transmission or softening of interest rates to our consumers as well, so we've started to do that. Our gross and net NPA, I've talked already, it was

1.1 and 0.1. We believe it amongst the lowest in the industry when we track NBFC non-banks we clearly see only one company which was at 9 basis points, so clearly amongst the lowest.

Portfolio metrics, as I said, expect construction equipment we are steady. Construction equipment, as I mentioned we have -- the current book has deteriorated by 150 basis points, business is on hold AR. The only point I would want to make on this is that despite the deterioration from current we've not had -- the business has moved in bucket one or in some cases in bucket two, we will -- we have strengthened the repossession and legal framework in this business much more now, in the last 90 days to make sure that we reprocess on time in the event of customer defaulting beyond 90 days and before we provision, which is at four months in this business, we should try and dispose off the asset and realize our monies.

So that's the quick snapshot and a view on the business and how quarter one got delivered.

I am ready to take questions on the business.

Questions And Answers

Operator

Thank you very much sir. Participants, we will now begin with a question-and-answer session. [Operator Instructions]. Our first question is from Nischint Chawathe of Kotak Securities. Please go ahead.

Yeah hi, Rajiv.

Rajeev Jain, Chief Executive Officer

Hi Nischint.

Nischint Chawathe

Just wanted get a sense on your market share in the consumer durables business. You did mention that your market share has now gone

up to around 12.5%.

Rajeev Jain, Chief Executive Officer

Right.

Nischint Chawathe

I believe at the end of fourth quarter was it somewhere close to around 10%?

Rajeev Jain, Chief Executive Officer

11%.

Nischint Chawathe

So -- and what would have been the market share, may be one year back?

Rajeev Jain, Chief Executive Officer

So if I look at the industry group, I'll to do sums, but I would say this would have been 5%, 6%. Because we grew 9 lakh accounts to 15 lakh accounts. Between '10, '11, '12 and the industry -- so I'm just doing a math, I would say it would have been 6%-7%. Which is moved by -- in the last year.

Nischint Chawathe

But a 2.5% market share gain in one quarter.

Rajeev Jain, Chief Executive Officer

No, 1.5%, 11% to 12.5%.

Nischint Chawathe Rajeev Jain, Chief Executive Officer

So we are asking the same question internally as well, Nischint. So, I want to as honest, because given what I see in the external environment I have asked my Head of Consumer Business, as to, is it fair to grow that much. Let me ask this question.

So the other way to look at it that we are constantly monitoring the portfolio metrics, early metrics, whether our bounce rates are going up, whether our TPT is rising, whether our delinquencies are -- our vintage curves are moving in a -- are trending the same way as they've been trending for the last three years, four years.

We are not seeing any change, and if I relate this to the fact that our current buckets have remained, have improved between March and June from 97.8 to -- 98.7 to, sorry, to 97.8 to 97.9. We're not seeing a change.

Operator

Excuse me sir. Sorry to interrupt. Mr. Chawathe can you just keep your mouth piece little far from your mouth because its causing disturbance in the call.

Nischint Chawathe

Sure.

Operator

Thank you.

Rajeev Jain, Chief Executive Officer

So Nischint we are not seeing any deterioration or early warnings in this business more specifically which makes us believe that we are growing our market share at the cost of a healthy portfolio growth.

Nischint Chawathe

Okay sir. Thank you very much.

Operator

Thank you very much sir. Our next question is from Sachin Kasera of Lucky Securities. Please go ahead.

Sachin Kasera

Good afternoon sir and congratulations for a good set of numbers.
Thank you, Sachin.

Sachin Kasera

Two, three questions. One, a follow up of the previous question wherein you mentioned that you have been able to grow market share and keeping the quality more or less intact. But you did mention that it's nearly almost say doubled in the last four quarters or five quarters. So could you just give us some more insight as to what has driven this type of significant market share increase? And can you continue to have this type of market share gains in the coming quarters?

The second question is on the capital raising wherein you mentioned that you would be looking at raising capital somewhere in the Q4 of this year or Q1 of next year.

Rajeev Jain, Chief Executive Officer

Right.

Sachin Kasera

That is assuming the 25%, 30% growth that you have mentioned or does -- because for the Q1 we had a significantly higher growth than the full year, right, it was around 55%, 60%.

Rajeev Jain, Chief Executive Officer

Right.

Sachin Kasera

If you are able to maintain this type of pace will that have to be preponed?

Rajeev Jain, Chief Executive Officer

Let me, so I get all your three questions and I think it's important that you've asked the same question that Nischint is asking and let me answer it. See, when we look at the waterfall of the business from -- if you look at quarter one, last year we did 380,000 accounts, 379,000 accounts and we did 545,000 accounts in quarter one this year.

Sachin Kasera

Right.

Rajeev Jain, Chief Executive Officer

When we break that data we find the following; we find that Eastern India has saw unprecedented heat this year.

Sachin Kasera Rajeev Jain, Chief Executive Officer

13,000 accounts grew on a year-on-year additionally in the Eastern market.

Sachin Kasera

Okay.

Rajeev Jain, Chief Executive Officer

So East if you talk to consumer durable manufacturers would tell you that they fundamentally had stock-out in East because of unprecedented heat and now followed by unprecedented rainfall. When we look at the second level, we find that frost free refrigerator growth was 25% this year.

Sachin Kasera

Okay.

Rajeev Jain, Chief Executive Officer

On a year-on-year on our volumes.

Sachin Kasera

Okay.

Rajeev Jain, Chief Executive Officer

LEDs have grown 100% year-on-year.

Sachin Kasera

Okay.

Rajeev Jain, Chief Executive Officer

Okay. We also see intense competitive activity in the consumer -- that give us another 25,000 accounts.

Sachin Kasera

Okay.

When we look at new -- there is significant competitive activity happening from the likes of Toshiba, Sharp and Hitachi in the consumer electronics space at this point in time and the LGs and the Samsungs and the Voltas, these are the new challenger brands over large global brands who have come into this business and posing a big threat to these companies. So that contributed another 30,000 accounts.

Sachin Kasera

Okay.

Rajeev Jain, Chief Executive Officer

We intervened with a new sales structure. That contributed. So I can go on and on, okay. I'm just giving you a texture that you know overlay on the question that Nischint asked and now you are asking. We understand fully the level of growth that has come in, and we are tracking and mapping as to where this growth is coming from.

Sachin Kasera

Okay.

Rajeev Jain, Chief Executive Officer

And evaluating that is it -- has it come by surprise or has it come by a method to the madness.

Sachin Kasera

Okay.

Rajeev Jain, Chief Executive Officer

That -- so I can -- there are eight steps that I can take you as to where this entire growth of 379 to 545 has come from, I gave you three, four reasons.

Sachin Kasera

Right, right.

Rajeev Jain, Chief Executive Officer

So I hope that provides more texture to the question that you and Nischint asked.

Sachin Kasera

Okay, fine. Thanks.

Second question, clearly on -- you were asking on capital, right?

Sachin Kasera

Right, right.

Rajeev Jain, Chief Executive Officer

Sorry, yeah. So capital, as I mentioned, I mean, we are reasonably well capitalized. We just have -- we at this point in time in quarter two we are going to raise another 150 crores of Tier II debt as well which is underwritten by somebody, so I can probably share it. That pushes up -- that will give us more width by another quarter.

Sachin Kasera

Okay.

Rajeev Jain, Chief Executive Officer

We are at 16.8%, we are accreting profit every quarter plus we raise this Tier II debt. I think we are reasonably comfortable for the next three more quarters. And if growth was to slowdown then that will -- in a capital sense will help contextually. So I think we are good

for the next three quarters, but may not want to wait till the last moment. So we've got Board approval and shareholders approval so has Bajaj Finserv got yesterday. So we may go out and raise capital in the fourth quarter so that we are prudent and abundantly capitalized.

The third point clearly is on -- question was on?

Rajeev Jain, Chief Executive Officer

Weather the growth we were able to prepone?

Rajeev Jain, Chief Executive Officer

Now growth, look we are taking things internally as I keep saying to my management team, we are taking things month at a time, given what's happening in the environment. Externally, I would say we are taking quarter at a time. So I think if our second quarter is as good as the first quarter or holds it -- we can hold performance, then we will revise guidance upwards. So I think second quarter is the important quarter in that sense from delivering the current fiscal and that's really how we would want to keep it as that. And if you are on the call in second quarter and if you are good then I will tell you as to how much we will grow by on a full-year basis.

Sachin Kasera

Sure. So just coming back to that capital rising, you are reasonably comfortable even if we do a slightly higher growth than 25, 30 for the full year and still sustaining till the fourth quarter?
That is correct.

Sachin Kasera

Okay.

Rajeev Jain, Chief Executive Officer

All sales growth will be supported by profit growth. We don't want to grow for the sake of balance sheet. Balance sheet is already at 15,000, whether we are 17.5 or 18, it doesn't matter. As I mentioned to you, construction equipment and infra we are already doing less capital allocation. So it provides us more width as a company, so that's an added point that's coming in from a capital stand point at this point in time. So I think we are comfortable for at least next three quarters.

Sachin Kasera

Okay. Sir, thank you sir for the answering those questions. Just one small bookkeeping question on the balance sheet. Your balance sheet this year showed an income of miscellaneous receipts of about 82 crores which were last year 28 crores. If you could just help us understand what that number is?

Rajeev Jain, Chief Executive Officer

I will hand it over to Pankaj to answer this. Just give us a moment.

Pankaj Thadani, Chief Financial Officer

It's predominantly the insurance income that we get over there, insurance cross sell that we do.

Sachin Kasera

Almost all of that 82 crores?

Pankaj Thadani, Chief Financial Officer

Yeah, quite a substantial part of that.

Rajeev Jain, Chief Executive Officer

There is EMI card fees that's sitting there, there is some level of penal that's sitting there. So you know...

Sachin Kasera

Is there a way to segregate that the cost that you incur in doing it or there is no -- how do we take it?
So this will be...

Rajeev Jain, Chief Executive Officer

So there is corresponding expense side to it.

Sachin Kasera

Yeah.

Rajeev Jain, Chief Executive Officer

And there is a corresponding income side. But you asked a balance sheet question, so -- no you've asked the -- he said balance sheet?
There is a corresponding expense that sits there which will be 35 crores, 40 crores.

Sachin Kasera

Okay. So, for that 80 crores, 82 crores, 35 crores, 40 crores is the cost? Hello?

Rajeev Jain, Chief Executive Officer

Yeah, yeah that's correct.

Sachin Kasera

And that ratio -- 50% ratio kind of stuff is what will be maintained, or what is likely to be maintained?

Rajeev Jain, Chief Executive Officer

No, I mean at a fundamental level the answer we would like it to be, but as we expand, as we invest more into building teams around it that number may drop to around 35%, 40%.

Sachin Kasera

And what is the growth rate expected in that particular number?

Rajeev Jain, Chief Executive Officer

No, so see, fee income fundamentally is a very important line for us as a company. So, whether it's EMI card fees, insurance fees, we've just launched in quarter one extended warranty with Bajaj Allianz general insurance company. We have credit card, we have fees in all lines of lending businesses that we do. I would eventually want that 20% to 25% of our net income should be contributed by fees, which is off balance sheet. Now that's a long-term view, today that number would be 7%, 8%.
Right.

Rajeev Jain, Chief Executive Officer

Orientation of the company is to get this to 20%, 25%. So we are quite a distance and you will continue to see action from us as a company in that direction to grow that pie.

Sachin Kasera

Long-term in this context means four years, five years?

Rajeev Jain, Chief Executive Officer

Yeah, I would agree, I would say it would be three years to four years.

Sachin Kasera

Thank you, thank you so much.

Rajeev Jain, Chief Executive Officer

Thank you so much sir.

Operator

Thank you very much. Our next question is from Nilanjan Karfa of Brics Securities. Please go ahead.

Nilanjan Karfa

Hi Rajeev.

Rajeev Jain, Chief Executive Officer

Hi Nilanjan.

Nilanjan Karfa

Nice. A quick question. Number one is since the...

Rajeev Jain, Chief Executive Officer

Little louder.

Yeah. The SME and commercial looks to be on a slower growth path, is that the right assumption?

Rajeev Jain, Chief Executive Officer

No. SME is growing, we -- the pieces that we are not growing in SME are pieces that we are intentionally not growing. Like I mentioned, business loans we have been growing which is an unsecured working capital business, we are growing much more slowly. In fact if I was to do apples-to-apples, just the loans to self employed in business loans is probably flat year-on-year, maybe marginally down year-on-year.

Nilanjan Karfa

Okay.

Rajeev Jain, Chief Executive Officer

We have built the counter cyclical business in that which is doctors loan over the last -- we launched that business 18 months, 19 months ago which has now grown to 30%, 35% of that business.

Nilanjan Karfa

Okay.

Rajeev Jain, Chief Executive Officer

So overall it's growing, but there is a line that is -- that we are growing much more dominantly, given that it's a counter cyclical part of the business despite being unsecured which is doctors. So I won't say they are growing slowly, they are growing, mortgages is growing, loan against property is growing, loan against property is growing, loans against security is not a dominant contributor. And if you see the press release, you will see SME has grown by 45, and consumer has grown by 48, commercial, yes. Commercial is a degrowth on advances quarter-on-quarter, on a full year basis you may actually see either a flat AR. AR is right now you are seeing at 91% because the AR was very small. Last year, if you see it was 1,200 crores in quarter one last year.

Nilanjan Karfa

Yes.

Rajeev Jain, Chief Executive Officer

On a full yearly basis you may see the AR flat, the number will hold at 2,300 crores, while balance sheet will grow whatever, 20%, 25%, 30% on a full year basis.

Nilanjan Karfa Rajeev Jain, Chief Executive Officer

It looks quite -- in terms of balance sheet, in terms of the overall portfolio mix of AR?

Nilanjan Karfa

Disbursals.

Pankaj Thadani, Chief Financial Officer

Disbursals, so see, quarter one was 48.

Nilanjan Karfa

Correct.

Rajeev Jain, Chief Executive Officer

It may hold there. I think quarter two is the key, because quarter three normally is the festival season, so those who are not spending also come and spend. So hopefully we will get a fill in quarter three as a natural play, quarter two is where the -- I think the important trend line will get set.

Nilanjan Karfa

Okay. Sir actually related to that I wanted to ask this question, if I look at the -- of course the broader economy we have seen any job losses to that extend, but I think the employee salaries have not essentially gone upwards significantly, plus there is an high inflation. So I am trying to get some color, are you seeing reduction in wallet size versus - you have added more and more customers. And the third thing to read into this is the delinquency has been inching upwards across a couple of product lines. But your NII has been growing, so is

it a combination wallet size customer growth, sub-bench in income and delinquency. How do I read these four numbers, because that is very confusing?

Rajeev Jain, Chief Executive Officer

So we have to simplify, that is point one. Now, fundamentally as long as we stay very focused on segments that we are dealing, which is a affluent client, I don't think wallet size is shrinking. I was reading somewhere that for the low income customer, food inflation costs 65% of his wallet. Now we are not dealing with low income customers. You know, I have consistently said that for four years and let me give the texture of that.

Nilanjan Karfa

Yeah sure.

Our LED growth for quarter as I mentioned to Sachin on the call, this year it's 100% Y-o-Y.

Nilanjan Karfa

Correct.

Rajeev Jain, Chief Executive Officer

Let me give you a other texture. LCD has degrown in current quarter.

Nilanjan Karfa

Okay.

Rajeev Jain, Chief Executive Officer

Okay. In 545,000 accounts on a year-on-year basis my LED has grown 100%, my LCD contribution has degrown. So, I'm raising the bar, I'm continuing to raise the bar, I'm not chasing mass customer for growth. Let me put this -- settle this once and for all. Okay.

Nilanjan Karfa

Okay.

Rajeev Jain, Chief Executive Officer

Because I want to grow that I say LED -- LCD we have seen prices drop by 30%, 40% in the last one year. You can get a 42 inches LCD now for 30,000. Okay.

Nilanjan Karfa

Yeah.

Rajeev Jain, Chief Executive Officer

LED is still 50,000 bucks. And that has grown 100% Y-o-Y. I'm giving you texture, I'm giving you color, okay. So we are not compromising in any way on who we deal with. So that is point one, let me put on the table.

Point two let me put on table, you asked on delinquencies, and let me just say, across businesses, other than construction equipment and a marginal drop that you have seen in two wheeler, we are holding where we were. Exact holding or improving, so let me address that so that we are all on the same page on this. If you see construction equipment and if you see consumer durable, from 97.8 we are at 97.9, it's an improvement in the portfolio.

Two wheeler as I mentioned to you, I agree from 89.3 it's 88.4, so it's a drop of 90 basis points. Personal loan cross sell, its unsecured part of the business is holding steady, 96.2 to 96.2, small business loan, holding steady 98.6 to 98.5, loan

Nilanjan Karfa

Yeah.

Rajeev Jain, Chief Executive Officer

Okay. It's only one client, we -- who moved from 0 to x buckets and that too in June, otherwise we would not have seen this as well. Construction equipment, I talked to you about, it's 150 basis points we are cognizant on that fact, loan against security is 100%. So at a fundamental level, our portfolio across metrics is holding well.

Now, let me add another point and I have said this many time, but we tend to forget that point. These are not the metrics on which we build product profitability modules. My consumer durable portfolio product profitability model can go down to 96%, I will never allow it to go, that's a different matter, but it can go down, I'll still be making minimum return on equity.

Two wheeler business, I can go down to 80% to 83% let me state that. We are holding at a different level that's a different point. So I want to make sure that it's understood well enough that -- in the same two wheeler business in September '10, we were in 81.2, we've taken it to 89, I am speaking from the chart only, right.

Nilanjan Karfa

Yes.

Rajeev Jain, Chief Executive Officer

You know, at 81.2 also it was making lots of money, at 89.2 it's making much more money, there is no question about it. It's also related to the fact that if you look at our return on equity we are at 25.5%. We say on a long term basis we'll deliver 18 to 20. When people ask me how will it move, I say we will see compression in margins, I say we will see benefit in operating cost and I say you will see increase in loan losses. So I am just trying to simplify the concept and making sure we stay on the same page, which I continue to repeat consistently.

Nilanjan Karfa

Okay, fair enough. Now what I was trying to...

Rajeev Jain, Chief Executive Officer

And I appreciate the question. So that's how we are taking it Nilanjan, as a company on an ongoing basis.

Nilanjan Karfa

Right. I was just trying to...

Rajeev Jain, Chief Executive Officer

And to the question that you asked me on job losses, look we said we will grow 20%, 25% we've grown 53% that is not our orientation, we are not chasing growth. Growth happened, we delivered, but not at the cost of quality of credit. That is something that we are reasonably cognizant of, not at the cost of segmentation. So some of these important principles we are not compromising on in any given way. Beyond that if environment is benign and we have the readiness to growth and you have the right controller ship I think we would -- we are here for growth.

Nilanjan Karfa

Okay. Because when I was looking at -- I also went back couple of quarters because just looking at the CD portfolio we were as high as I think close to 98%.

Rajeev Jain, Chief Executive Officer

Yeah, 98.1, 98.2.

Nilanjan Karfa

Right.

Rajeev Jain, Chief Executive Officer

As I mentioned in the previous quarter call you will see the number improve, fortunately it has improved from 97.8 to 97.9. We would like to hold this number at around 98, we would like to.

Nilanjan Karfa

Okay.

Rajeev Jain, Chief Executive Officer

As a management.

Nilanjan Karfa

No, so is it...

Rajeev Jain, Chief Executive Officer

We would still be doing business even if it became 95, let me state this.

Nilanjan Karfa

Okay.

Rajeev Jain, Chief Executive Officer Nilanjan Karfa

Absolutely.

Rajeev Jain, Chief Executive Officer

No, it's important I state my point of view as well. I wish I could -- you guys would ask for segmental portfolio performance from various companies whom you track. I think we'll be living with a more transparent environment in the process.

Nilanjan Karfa

Sure. A quick point on that subvention. We have seen sales going down actually. So is that adding up to your -- the NII also has a larger share of subvention coming in?

Rajeev Jain, Chief Executive Officer

Which phase Nilanjan, phase going down means?

Nilanjan Karfa

Sorry?

Rajeev Jain, Chief Executive Officer

When you say -- okay, consumer durable sales going down?

Nilanjan Karfa

Yes. It is not. Is it?

Rajeev Jain, Chief Executive Officer

No, so see April data is 5% growth, May data is around 9% growth. This is IIP data I'm quoting. June data has not come. We believe June will be 13%, 14% growth. Given -- and yesterday I was seeing an article in Eco Times it is saying clearly, suddenly durable manufactures are happy. Yesterday only there was a article in page five of Eco Times saying that, because I think June was an extended summer, the AC lift-off has happened really in June.

So I think June will look like 13%, 14%, 15% growth. I am giving you a ballpark estimate. So that is one part. But our sales have grown 45%, that's the correct part, which means that the manufacturer subvention pool has increased, that also a correct part. As long as it's helping them sell more and sell more premium products, they will -- some of the smart manufacturers that we work with are recalibrating their A&P budget to move to more to subvention and less to advertising. Okay.

Rajeev Jain, Chief Executive Officer

There is no big invention happening in LED or LCD, what is there to advertise. Whereas I moved 1,200 crores of metal for consumer durable industry, that's why they gave me the money that they gave me.

Nilanjan Karfa

Right, right.

Rajeev Jain, Chief Executive Officer

So if I can move -- if I am a variable cost structure to them I see no reason they will not be willing to or prepared to shift or reallocate their budgets from advertising to promotion, we see it as promotion cost for them as subvention. So, you know, and we pass through. As our scale grows we are passing through part of our -- the operating leverage benefit is also passed on to us to our large strategic relationships.

Nilanjan Karfa

Okay. That was very helpful actually. My third question is, how much lead time do you typically get to control growth in terms of what you are seeing on the market to controlling growth?

Rajeev Jain, Chief Executive Officer

To look fundamentally, I would say to you that we would have shaved off since October last year, 15% to 18% of business in each line of the business. I'll give you an example of mortgages, loan against property.

Nilanjan Karfa

Yeah.

Rajeev Jain, Chief Executive Officer

We took a call in January last year of dropping LTV in micro markets like Delhi. We again took a call in June of further dropping LTV in micro markets like Delhi. No impact on portfolio, okay. But we also read Economic Times, we also read Times of India, we also see what's happening. We also think it's real in many ways. We would have shaved off 15% to 18% of the bottom business in

each line of business in the last nine months time.

Nilanjan Karfa

Okay.

So significant focus is on making sure quality of portfolio is of -- has the most important dimension rather than anything else.

Nilanjan Karfa

Okay, okay.

Rajeev Jain, Chief Executive Officer

Now, having said that, I think I live in a real world, I'm a Operating Manager, that doesn't mean things can't go wrong. We are -- in our prudence we have taken all actions as we should take.

Nilanjan Karfa

Sure.

Rajeev Jain, Chief Executive Officer

And I want to reinforce again, numbers are very sweet. We keep sharing the portfolio data, a lot of this portfolio data can deteriorate without causing a significant hole in the loan loss provision side or in our operating performance.

Nilanjan Karfa

Right.

Rajeev Jain, Chief Executive Officer

I want to reinforce that point so that's it's understood. I understand that the external environment is bad, companies and institutions that you track are reporting higher loan loss provision in numbers, I understand that. We are at the bottom of the curve rather than at the top of the curve. From this top -- from a bottom of the curve the only place to go is up. We can't go bottom. I just want us to be cognizant of that thought process.

Nilanjan Karfa

Sure, sure. Thanks very much Rajeev for that longish answer. Very helpful. Thank you.

Operator

Thank you very much. Our next question is from Hiren Dasani of Goldman Sachs Asset Management. Please go ahead.

Hiren Dasani

Yeah I just wanted to get very basic data. What's the borrowing outstanding number and the cost of borrowing for the quarter?

Pankaj Thadani, Chief Financial Officer

6,180 crores out of -- 11,200 crores approximately as of June end.

Hiren Dasani

Okay. And what would be the cost of funds for the quarter?

Rajeev Jain, Chief Executive Officer

Lot of equity.

Hiren Dasani

I mean only cost of borrowings you can say.

Rajeev Jain, Chief Executive Officer

That will be around 10%.

Pankaj Thadani, Chief Financial Officer

10%.

Hiren Dasani

And that seems to be have gone up little during the quarter, 25 basis points, 30 basis points?

Rajeev Jain, Chief Executive Officer

Sequentially it's down.

Hiren Dasani

It's down sequentially.

Rajeev Jain, Chief Executive Officer

Yes.

Hiren Dasani

Okay. And so little less than 10%, right, that's the cost of funds?
That's correct.

Hiren Dasani

Okay. And I mean, are you seeing continued easing as we exit the quarter or?

Rajeev Jain, Chief Executive Officer

The answer is yes. The answer is yes, I mean, one year CBs are now getting raised at 9.75, 9.8 kind of numbers. We are raising Tier II debt at probably 10.10. That's a ten year paper.

So we are seeing easing. Would we like to see it much more, sliding is much, there is more slide on a downward pattern. Yes but I think banks have not moved the needle much. The effective cost of base rates are down only 25 basis points. You add CRR and the repo and reverse repo the number should be 80 basis points in our estimate. So, but that's where we are.

Hiren Dasani

Sure. One question on your overall OpEx to assets. I mean where do you see that moving to little

Rajeev Jain, Chief Executive Officer

That was at 45%, I think for the quarter 46.

Hiren Dasani

You are talking about cost to income. I was talking more about cost to assets.

Rajeev Jain, Chief Executive Officer

Cost to assets, now see because we have

Hiren Dasani

Or you don't track that metric

Rajeev Jain, Chief Executive Officer

No we don't track that at all. I mean you have ask me a question I will think about it, but we don't track that as cost to asset. Because see there are consumer SME and commercial sitting there, growth patterns are different. So it's a -- we track OpEx to NI, if we earn money then we can spend money, is the more important metric that we track, that number is at 45.8 for last quarter.

For full year last year it was 47. But on year-on-year basis it is largely held. I do want to state that we continue to invest in our capabilities framework, so where the people capabilities, technology capabilities, operational capabilities. So you If we start to see growth pressure that we will calibrate that to always provide that cost through in case growth became a challenge.

Hiren Dasani

Sure. So I was just asking from the point of view that as your asset mix moves towards let's say more of SME and commercial lending, because those are more sticky assets in terms of balance sheet vis-à-vis more fast running book on the consumer side. There is a case that probably the yields will come down to some extent, correct me if I'm wrong there?

Rajeev Jain, Chief Executive Officer

No, that's, you are absolutely right.

Hiren Dasani

So should be the cost to assets without having any overall negative effect on the overall return ratio?

Rajeev Jain, Chief Executive Officer

I'll answer it a little complicatedly. See the opportunity framework in the consumer businesses from a competitive standpoint remains very large. The entry barriers to the business are also now given our size is very large. So I would say it can keep growing as long as it doesn't hit a credit bump.

The second point is SMEs and commercial we are growing commercial, we have taken a call this year to not grow given what's happening in the market place. So for the balance of the year I would say, Hiren to you that I think things may not change too significantly. But on a long-term basis the answer is, my answer would be I fully agree with your point.

Hiren Dasani

Thank you.

Operator

Thank you very much sir. Our next question is from Gaurav Sharma of J O Hambro Capital Management. Please go ahead.

Samir Mehta

Hi, Rajeev, it's Samir here. Three questions, one was on the provisioning side. Would you say that you have a buffer already created when times are good particular last 18 months to 24 months, that's one.

Second is if there are changes in the product mix that take place based on the assets that grow. Will they have a significant impact of margins due to differential pricing and differential margins on those products.

And the third thing was an update on the bank license from a group perspective and what are your thoughts on that?

Rajeev Jain, Chief Executive Officer

So, on provisioning we are not allowed Samir to take floating provisions. So, we make permanent changes to the provisioning framework. It gets signed out by auditors and by Board. And that is when we can make change.

So by regulation we are not allowed to make any floating provisions unlike banks are allowed. We are reasonably robust on our provisioning framework, but we are -- given that we are in a -- we continue to be super normally profitable and given that Usha Thorat guidelines will come around, we are waiting for it to be inked as soon as possible, we are walking in that direction. I have stated that between quarter one and quarter two we will -- we have to catch up between 21 crores to 24 crores on a one-time basis to be fully compliant with what Usha Thorat Committee has recommended already in their working document.

We will -- first quarter has gone, we haven't taken any additional number, we may take that view in quarter two or break it between quarter two and quarter three, but we will do that and we will be fully compliant with virtually what banks are required to do or tighter than that. So I'll give you an example, like construction equipment -- so across all businesses we're required to have a 180 days what is NPA. In four -- out of four businesses I charge-off 50% to 60% at 90 days passed due. And it's not even an NPA. So I charge-off and it goes as a provision entry. So I hope that answers the question and I've expanded the question too from a guidance standpoint as to what our view is in the next, in quarter two and quarter three.

On the second point, margins yes, if our consumer business was to grow significantly slower and SME was to grow faster and commercial was to grow faster, you will see NII compress. You will see margins compress. So the answer is clearly yes.

The third point on banking license, I read what you read in newspaper dailies and press media, we are awaiting -- there was some noise just 10 days ago saying RBI is ready to issue guidelines and it's died, we have no information. Having said that I would just say to you that from a design standpoint and structural standpoint on the asset side of the business, we typically now mirror data bank, we have a consumer business, we have a SME business and we have a commercial business.

These are the three businesses on the asset side that we would fundamentally do if we were to be a bank or we were not to be a bank. So we are not building businesses with a arbitrage framework or a licensing framework. We are building business to essentially be profitable. By the way, if we got a liability side framework, by the way if we got a transaction management business model, we would -- would we like to convert to a bank? The answer is yes. But I think externally we are some distance away from -- when I say externally I mean regulatorily we are I think some distance away from that call to be made. But would we? Answer is yes.

But would we get? We don't know.

Samir Mehta

One follow up on that, you mentioned about the provisioning to go to the Usha Thorat's recommendations and the requirement for capital, what is the minimum level of Tier I that you would internally consider as justifiable given the current economic situation?

Rajeev Jain, Chief Executive Officer

So 12% is what the recommendation is, actually that's inked, 12 and 3 is inked, no.

Pankaj Thadani, Chief Financial Officer Rajeev Jain, Chief Executive Officer

No, okay. So 12% is what the recommendation is, it will be 12 plus 3 which is 3 of Tier II and 12 of Tier I. We would like to always raise capital at Tier I off and as you know, there is an agreement with shareholders in that around 14% Tier I, between 13 and 14 right, I mean you are not depending our ability to raise Tier II and without having to compromise on growth -- on profitable growth.

Samir Mehta

And do you provide a breakup between the Tier I and Tier II as of June end?

Rajeev Jain, Chief Executive Officer

Yes, we did in the -- yeah so it's there in the presentation, one second please. So Tier, sorry, slide 15, our capital adequacy is at 14.5% Tier I and 2.3% Tier II at this point in time.

Samir Mehta

Thank you for that. Thanks a lot.

Operator

Thank you very much. Our next question is from Srinath Krishnan of Sundaram Mutual Fund. Please go ahead.

Subrimanyan PS

Hi sir, good afternoon. This is Subrimanyam here. Congrats on a very good set of numbers.

Rajeev Jain, Chief Executive Officer

Thank you.

Subrimanyan PS

A few data queries, could you breakup your AUM between on balance sheet and off balance sheet, how would that look like?

Rajeev Jain, Chief Executive Officer

Yes less than 750 crores in off balance sheet, about 750 crores. And balance is all on balance sheet.

Subrimanyan PS Rajeev Jain, Chief Executive Officer

Right.

Subrimanyan PS

But if I just look at your presentation on the number of customers or the number of loans that you have disbursed and the amount of loans. There seems to be a slight shrinkage in the average ticket size of the loans, what would you attribute this to?

Rajeev Jain, Chief Executive Officer

No. Ticket size is actually up, ticket size is up to 26,000. We don't share that data now. So you may have done total.

Subrimanyan PS

This was on

Rajeev Jain, Chief Executive Officer

It is a two things. So I mean one is blended information. So consumer is down because one the two wheeler which is at 36,000, 37,000 as I mentioned to you is flat. Consumer durables, so let me give a texture. So consumer durable was up from 24,500 to 26,000.

Subrimanyan PS

This is disbursement sir?

Rajeev Jain, Chief Executive Officer

Disbursement, yes. Personal loan gross sale was up from 60,000 to today ticket size is about 80,000. Two wheeler was flat and the volumes are also flat. So I mean you know, so that's how you maybe seeing the proportion in the consumer business of two wheeler to consumer has actually gone up in last quarter. Because as I mentioned earlier Bajaj Auto sales was soft. So we have not grown our market share in, market share in a sense market share or from a penetration standpoint.

So the consumer composition has grown.

Subrimanyan PS

All right. Sir the third question was on costs. You -- in your presentation and I think mentioned in your opening remarks also that you haven't gone for any distribution expansion during the year, during the quarter. And if I just look at your reported numbers last part of this cost increase has come from increasing marketing and commissions, higher recovery commissions and also some higher other expenses.

Rajeev Jain, Chief Executive Officer

So it's a volume, it's a straight volume driver, that's one point. We pay all kinds of commission. So we pay trailing commission to retailer, we pay origination commission. But are we seeing pressure so far on higher commissions to most parts of businesses, the answer is no. In some parts like salaried business which is a smaller contribution with the advent of ICICI and Axis, Axis and ICICI more in that order, are we seeing pressure on commissions, the answer is yes. But that's a smaller contribution to the business.

So marketing and commission is completely proportionate to the growth.

Second is the recovery commission because of the AR movement and just the -- again it's a volume link that are level of AR and the level of number of accounts that we managed on a year-on-year basis. Right now just in consumer, you remember now we are banking 14 lakh customers. So, last year same time we were doing banking 10 lakh customers. So even if the bounce rate remains at 7%, 8% it is the proportionate moment.

The third piece is other expenses. So clearly as I mentioned earlier in the call as well that we are continuing to sequentially as Pankaj is mentioning we are flat, on a year-on-year basis we are high,. But as I mentioned earlier you will see this number at a reasonably elevated level for even balance of the year if we remain a growth company we are investing in various areas of we have doubled our training and development, people training and development, investments this year, we are increasing our -- we have increased our expenses in the technology side of the business, we will spend this year, we have taken a view we will take that view in third quarter of the year but we are looking into this, investing 15 crores to 18 crores in advertising and promotion this year. So these are the areas that will sit in other expenses and which we believe are important to move to the next level as a company and we are committing investments in that.

Subrimanyan PS

Okay Sir. And one last data point if I may. Just wanted the break-up of interest income between interest on on balance sheet loans and interest on off balance sheet loans, if you can?

Rajeev Jain, Chief Executive Officer

So we only get an AUM fees, we don't get an interest income.

Subrimanyan PS

Okay.

Rajeev Jain, Chief Executive Officer

So, he's saying what is the mix, so 750 crores -- so that will be, how much?

Pankaj Thadani, Chief Financial Officer Rajeev Jain, Chief Executive Officer

So that will be around 2 crores to 2.5 crores. That's all.

Pankaj Thadani, Chief Financial Officer

Full year was about 8 crores.

Rajeev Jain, Chief Executive Officer

Last year full year was 8 crores, and first quarter it will be 2 crores to 2.5 crores.

Subrimanyan PS

So this income is booked as fee income not as interest income on the off balance sheet?

Rajeev Jain, Chief Executive Officer

Yes, that's correct.

Pankaj Thadani, Chief Financial Officer

In fact part of the miscellaneous income in there.

Subrimanyan PS

Okay got it sir. Thanks sir. That's it from my side. Thank you very much.

Operator

Thank you very much. Our next question is from Shrey Loonker of Reliance Mutual Fund. Please go ahead.

Shrey Loonker

Hi sir.

Rajeev Jain, Chief Executive Officer

Hi Shrey.

Shrey Loonker Rajeev Jain, Chief Executive Officer

So, two, three things. I mean you know and I raised earlier, I made a point that we've cut the bottom 15%, 18% of the business, one of the calls that we took in on 1st of June is to raise the bar from 700 score that used to be minimum score requirement to get a loan to 750. That itself knocked off 5%, 6% of the business. So clearly, so that is one part I am texturing to you, okay.

So from the consumer bureau standpoint there is no leverage or a level of increased competitive activity or any headwinds that we are seeing, it's very, very early days as yet, anyway the two large private sector lenders have just come in, so I think it's some time before we see some headwinds. So we are not seeing any change in through the door, as I mentioned to you we've raised the bar from 700 to 750 on a preventive basis anyway as a company in June 2012. Does that address your question or?

Shrey Loonker

That is helpful. Also if you can just give us some more sense on how these two private sectors players and what exactly are they doing on the ground, if you could just give us some sense, I mean, how do they penetrate, I mean do they need to really win over the dealer or do

they have to win over the OEMs to penetrate this, what is more crucial and are they getting it right this time around?

Rajeev Jain, Chief Executive Officer

No, it's very early days and you have to ask the management.

Shrey Loonker

Okay, fair point. And just a third, last question.

Rajeev Jain, Chief Executive Officer

Business they are not there, so in some of the business like salaried we have started to see them. So they are using the old established model of direct sales associates to grow the business. I think some parts of branch are being used as well. So, but I am not qualified to answer that question.

Shrey Loonker

Correct, correct. And just to get a sense, through credit cards financing, what will be the market share in consumer durable, in your view, 12.5% is in our share?

Rajeev Jain, Chief Executive Officer

In top eight markets would be 40%, 35%. We would win top most eight market would be -- top eight, top. We would be 15%, 16% and the balance 50% would be cash. But the story starts to change as you go down from 8 to 15 and 15 and beyond. Beyond 15 market there is very little credit card business, it's cash and us. Up to 15 markets that number would be 20%, 25% on credit card, 12%, 13% for us or 13%, 14% for us, less, it will be less, I mean 9% to 10% and the balance will be cash. Sp a significant space for all of us to grow credit card, us and the quarters our market share shift has been coming from more of the non-top eight metros, top eight cities?

Rajeev Jain, Chief Executive Officer

Correct. That is correct. We have a reasonably dominant position in top eight and by as part of our diversification framework, we started to walk on that path, 18 months ago I mentioned when I was talking about the waterfall of the business that we invested in deeper sales management structure, 15 months 16 months ago.

So clearly the view that we should have much more balanced portfolio from a geographic standpoint. So that's beginning to give us much more dividends now than it gave last year.

Shrey Loonker

Phenomenal. And, if -- just broadly, maybe three years five years out, what is that market share eventual market share in the CD portfolio that we can talk about achieving before which, beyond which we will get nervous. But what is that big market share that we can look at for 12.5%?

Rajeev Jain, Chief Executive Officer

We are very far, we are very far away. I think that business, I mean the consumer durable business with the credit card business, we have a strategic partnership with Standard Chartered, that number should add up to 25% someday in life. I think when will that, we really don't know but you have seen the likes of GE Capital do that in Western economies, so we are not creating a number, we are following a number. If they can do that in such large well established markets, with such high penetration of credit cards, I think we can do that, we can aspire to do that sometime for us as well.

Shrey Loonker

Okay. And that's all Rajeev. Thanks a lot and all the best.

Operator

Thank you very much. Our next question is from Dhaval Gala of Birla Sunlife Mutual Fund. Please go ahead.

Dhaval Gala

Yes. Hi, Rajeev, congratulations on good set of numbers.

Rajeev Jain, Chief Executive Officer

Thank you, Dhaval.

Yes, slightly longer-term questions, I mean, you always said that all the line business items you can grow to the \$1 million portfolio each. Maybe if you could just give considering the mix change and the loan book size on the consumer already inching up strongly, would you see that, I mean and also looking at the behavior in the last 18 months, would you also up your ROA targets or steady state ROAs from 300 bps to 350 basis points sides, considering you are already clocking more than 400 basis points every year now for the last two years?

Rajeev Jain, Chief Executive Officer

I would revise it, but I would continue to revise downwards. What we deliver is an outcome I don't have control over it in that sense. So two, three things, let me address it. So the first \$1 billion portfolio that we now virtually have is the mortgages business.

Dhaval Gala

Right.

Rajeev Jain, Chief Executive Officer

Even on current, just about there, I mean we are just about there. So the consumer business fundamentally will take longest to be a \$1 billion, because the AR runs off very rapidly in the consumer businesses.

Dhaval Gala

Right.

Rajeev Jain, Chief Executive Officer

SME business will be the first one to, SME and commercial will reach the \$1 billion number much much earlier than our consumer business. But consumer businesses are high entry barrier businesses, the run off is much faster, they contribute disproportionately to our net income. So we would grow scale out of SME and commercial investments and we would grow -- we will continue to deliver profitability or disproportionate profitability out of our consumer businesses.

We continue to believe that each one of these businesses will be a \$1 billion business and one step at a time in the next three years to four years time. So if you would ask me, would we be \$8 billion, \$9 billion business in the next four years time? I would like to believe we could be or we would like to be.

The second question of ROA, look we -- I am beginning to sound like wolf crying now I don't want to be that, these are not steady state ROAs, we are in a super normal profit environment, as a result of the nine competitive environment, as a result of strong credit operating module. I'm not saying it's going to -- both will give in that quickly, but I'm not saying on a -- I'm not saying that on a long-term trend line basis they are sustainable. I think they are more likely to be 3% ROA post tax, 6.5 times gearing at 20%, 21% ROE.

Quarter one we're at 25.5%, full year last year we were 24%, year before that we were 19%. I would like to continue to hold at between 18% and 20% post tax ROE. And a 3% ROE, more importantly a 3% ROE than a ROE because I can manage ROE through balance sheet which increasingly is not a favorable point across the world. So, my request would be to not look at the current set of ROAs and track us on that, you have to track us on 3%, whatever more is because of

Dhaval Gala

Okay. Sir on the other two things what I wanted to know, the number of people right now on the company -- means on Board?

Rajeev Jain, Chief Executive Officer

It's 1,400, sorry, 20,850, 2,200 to 2,300. 2,300

Dhaval Gala

And what would be the plans?

Rajeev Jain, Chief Executive Officer

No, it's not, no you won't see significant growth.

Dhaval Gala

Okay. So, more of...

Rajeev Jain, Chief Executive Officer

You may see 75 people to 100 people added, max-max, it may not even be that much. We would have exited at 2,250, we would have added 50, 60 people that's it. And most of our hiring happens in quarter one of the year. To all businesses the plans are signed off in the beginning of the year. So most hiring happens in the first four months or five months, after that no hiring happens.

Dhaval Gala

Okay. Sir and if I could get a...

Rajeev Jain, Chief Executive Officer

We will start sharing that number from next quarter in the metric.

Dhaval Gala

Okay. Sir and if I can get your risk weighted asset number on an overall basis and also on the perspective. Is there any differential risk weighted assets across the different asset or the business line item?

Pankaj Thadani, Chief Financial Officer Rajeev Jain, Chief Executive Officer

For mortgage or for unsecured our risk weights are one only. We're not.

Pankaj Thadani, Chief Financial Officer

We have for some contingent liabilities where it is a 50% risk weight. Other than that most of all our risk weights are at unity.

Dhaval Gala

Okay, so all would be at 100?

Pankaj Thadani, Chief Financial Officer

Yeah.

Rajeev Jain, Chief Executive Officer

That's correct.

Dhaval Gala

Whether secured or unsecured? Hello?

Pankaj Thadani, Chief Financial Officer

Yeah.

Rajeev Jain, Chief Executive Officer

Yes, that is correct.

Dhaval Gala

And what would be the out -- I mean so roughly the risk weighted asset number should track slightly lower than the overall AUM number, would it be correct to assume?

Rajeev Jain, Chief Executive Officer

AR number is what you need to track rather.

Yeah, receivable under financing activity, you got to take our annual report and just figure out our basic other current assets and -- levels, we don't really have too much of a movement in that.

Dhaval Gala

Okay.

Pankaj Thadani, Chief Financial Officer

Okay?

Dhaval Gala

Okay sir. Sir, lastly I think you've repeated, but sorry to again ask you on the capital raising part. What would be the outstanding warrants which is yet to get converted by the promoters?

Rajeev Jain, Chief Executive Officer

In fact it's a good point you made because I had forgotten that. That's another 73 crores that will come in, it will come in around September, it should come in the current quarter. In fact it's a valid point, it's good you raised that because I had forgotten that. So that 73 crores that has to come in I think 14 lakh warrants -- 46.9 lakh warrants were converted, 60 lakh warrants were there.

So 13 point whatever, 13.1 lakh warrant, 73 crores has to come in, that will come in between -- sometime in September, may be in quarter two or early quarter three, between September and October it will come in. That will further give us another 500 crores of asset aggregation opportunity plus the Tier II that we raise, plus the accretion that we are doing.

Dhaval Gala

Sir and what was the number happened in the first quarter?

Rajeev Jain, Chief Executive Officer

No, it only came in fourth quarter.

Dhaval Gala

Okay. Only in the fourth quarter, so nothing here.

Rajeev Jain, Chief Executive Officer

We got between -- in the last year we got 310 crores.

Pankaj Thadani, Chief Financial Officer Rajeev Jain, Chief Executive Officer

320 crores, 396 crores has to come in. So 76 crores has to further come in which will come in one lot between either in the month of September or in the month of October.

Dhaval Gala

Okay. Sir and whenever you hit the markets or whichever proposed were you look to raise capital, what would be the quantum it would be ideally targeting

Rajeev Jain, Chief Executive Officer

750 crores. We will raise 750 crores to meet our next three year needs from a balance sheet stand point.

Dhaval Gala

Okay. Because I just wanted to understand considering that looking to build our business to levels of \$8 million \$9 million over a period of next four years wouldn't be good enough if you raise a bigger capital than what you are actually looking at?

Rajeev Jain, Chief Executive Officer

So it will give us at least upto \$7 billion depending on where the rupee is, of course that's a different discussion. We should be reasonably well geared for 32,000 crore 33,000 crore book. If I was to convert the numbers into rupees.

Dhaval Gala

Rupees.Okay.

Rajeev Jain, Chief Executive Officer

From a next three years stand point. And then at 18% 19% ROE.

Dhaval Gala

Sir, just considering current net worth would be roughly 2150 crores odd?

Rajeev Jain, Chief Executive Officer

That's correct. 2150 is what we have ended the quarter with.

Dhaval Gala Rajeev Jain, Chief Executive Officer

2190. 2052 plus 140 right, so 2190. that's correct right? 2190 is what we've ended the quarter with.

Dhaval Gala

And you would be close to 6.25 to 6.5 types of gearing already?

Rajeev Jain, Chief Executive Officer

Gearing maybe, that's correct. That's why we are getting there. So if we start to grow faster than our net income accretion, we will need capital. And that's why the 73 crores will come that's why the Tier-II will come, that's exactly what will hold us till the next three more quarters.

Dhaval Gala

Okay. That's it from my side. Thanks a lot.

Rajeev Jain, Chief Executive Officer

Thank you, Dhaval.

Operator

Thank you very much. Our next question is from Shyam Srinivasan of Goldman Sachs. Please go ahead.

Shyam Srinivasan

Hi. I just have two short questions. The first one, can you just talk a little bit about what's happened to the asset yields during the quarter and how they have kind trended for the key product lines that you have?

And the second question is related, it is just about in terms of what you are seeing in terms of competition from the likes let's say banks on the different products especially if you see banks seem to be getting aggressive on the product. So your thoughts and what you are seeing on the ground?

Rajeev Jain, Chief Executive Officer

So Shyam the across businesses the margins are holding so far, we are seeing some level of compression, minor compression in mortgages

And I will answer the second question as well. Some compression in mortgages. But otherwise we are seeing compression but we're walking away from those deals. So we are not seeing compression and anyway we are not in a growth mode in that business. So if I was to look at our nine products and say where are their compressions, there is marginal compression in mortgage business and in construction equipment.

Home loans, there is increased competitive activity from both these new players. Construction equipment, there is increased competitive activity. But that business is going through a structural overhaul within competitors and in the market place.

So it is very difficult to make sense out of that business at this point in time. I have always said that that business struggled from appropriate return on equities for the lender and it makes much more sense to be a borrower than a lender in that business. I hope to see some structural change in that business.

So that's where we are on margins. Consumer margins generally hold between 25% 26%, they have held SME margins, secured businesses, are around 13% they are holding. They would have been at 13.2 they are at 13, unsecured working capital business is around 18.5, 19 that's holding.

Salaried we are seeing competitive activity, I would say reasonable competitive activity both from the private sector lenders more from Axis then ICICI at this point in time. We only go to market for 50% of our salaries business. So balance 50% we do through a cross sell of our durable base. So we are not that impacted by it, but we think its not good for the market.

On your second question, was on mortgages. So there is something interesting happening in the loan against property business. What is happening in the mortgage loan against property business is that a whole lot of clients, especially the segment that we are focused on, we are essentially focused on a 25 crore average turnover, a 90 lakhs to 1 crore cash profit client, 100% of our banking lines and limits overdraft or term loans are looking at replacing those lines with loans against property.

They are doing it for two reasons, one is, all public sector banks have principally screwed these guys over the last 15 months, 18 months.

These guys are today running working capital lines at 15%, 15.5%. They are on variable rates, they are told their credit rating is low and they are charged these kind of rates.

The benefit to the borrower is that, he provides largely receivable or in some cases he -- in lots of cases he also provides branded machinery or a fixed charge in planted machinery. They can't run businesses at these levels of rates. So they are coming to markets saying, look take a better collateral which could be loan against my office, home or securities, marketable securities, and give me money between 12.5% to 13%.

A 200 basis points on a 3 crore or a 4 crore exposure is a 10 lakh, 12 lakh number which is reasonably relevant for a guy who makes 90 lakhs. So that is a textured information on what is happening in that market, as to why growth is happening.

There is also, I would add a point here, there is asset price inflation also sitting there. As I mentioned earlier on the call that residential mortgages and commercial mortgages rates in the country are continue to rise in some of the micro-markets by 20%, 25%, so there is asset price inflation also that's happening there that's contributing to growth in the business as well.

So I would say these are the two big reasons why. Third reason is a small reason, but we do get 10% to 15 of the clients who come and say, look I wanted to -- I am unable to close my working capital line. I would like to pay down, but because it's an evergreen OD I land up spending the money and I am not disciplined enough to pay it down. Whereas we, all loan against property loans are installment based loans, there is principle being paid every month. So he says at least in the process I will pay down in five years, six years. So that is a small reason, but a reason enough for at least 10% of the client to actually do this.

Shyam Srinivasan

Okay, just one quick follow-up. What are the LTVs that we have on the lab business?
Our average LTV would be 50% there.

Shyam Srinivasan

Okay.

Rajeev Jain, Chief Executive Officer

At a portfolio level I can go upto 65%, but my average LTV through the door will be -- in the month profit acquisition will be around 50%.

Shyam Srinivasan

Okay. Thank you, that's it from my side.

Operator

Thank you very much. Our next question is from Ashish Sharma of Enam Asset Management. Please go ahead.

Ashish Sharma

Yeah, congratulations on a good set of numbers Rajeev. Just one quick question on the impact of subvention, I mean if we adjust for subvention in the interest income line how would have been the NIMs for Q1 sir?

Rajeev Jain, Chief Executive Officer

If I was to eliminate, is it?

Ashish Sharma

Yeah.

Rajeev Jain, Chief Executive Officer

Now that's a -- that's not a answer I can -- I mean I can answer over phone, but it will take five minutes to seven minutes. If you follow-up, it's a valid point, I think it's a good point. You've given me as well that we can start -- we don't quote NIMs because of consumer durables. We can probably starts quoting net of consumer durable to align the number. But, if you were to -- if you have Sandeep Jain's number, he should be able to assist you over the call.

Ashish Sharma

I'll do that. And I just wanted to--.
Next time onwards.

Ashish Sharma

Sure. And just wanted to -- on the growth part you mentioned that as of now we are sticking with a 25% to 30% growth rate. Is there any strategy where you want to take-off certain portfolios off the book, I mean, are we addressing for that because I mean?

Rajeev Jain, Chief Executive Officer

No such view, all our businesses are strategic business, all our businesses are important business, we will grow all of them. We may not grow all of them today because of the external environment, we will grow them when the appropriate time comes. So I just want to make sure that we are all on the same page on this.

Shyam Srinivasan

No, because even in the case you grow at the same level at which you grow in the last nine months of FY12, you will be even ending up around 19,000 crore of AUM sir. So which is around 45% growth rate, so that's why I just wanted to check?

Rajeev Jain, Chief Executive Officer

Yes, Ashish, unfortunately I am running the business. So I don't have a view on 19,000 crore, I have -- as I said I have 25% to 30% view. I am not saying your maths is not wrong -- is wrong, okay, I am not saying. But if you have to follow through at a 1,500 crore, average goes for next three quarters than 19,000 crore number I fully understand. Is there a clear visibility to that framework it will get more established by end of quarter two is all I am saying. That's all I would just say.

Shyam Srinivasan

Fine. Thank you.

Operator

Thank you very much. Due to time constraints, that was the last question. I would now like to hand the floor over to Miss Chinmaya Garg for closing comments.

Chinmaya Garg

Thank you. On behalf of IDFC Securities I would like to thank Bajaj Auto Finance team and all the participants for joining us on the call. Thanks Rajeev for taking out the long time for the call today.

Rajeev Jain, Chief Executive Officer Pankaj Thadani, Chief Financial Officer

Thank you.

Rajeev Jain, Chief Executive Officer

Thank you for migration, sorry for migration problem. Thank you, bye bye.

Operator

Thank you very much. Ladies and gentlemen on behalf of IDFC Securities Limited, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines.