



## “Bajaj Finance Limited Q1 FY-15 Results Conference Call”

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**MODERATOR:** **MR. KARAN UBEROI – VICE PRESIDENT, JM FINANCIAL INSTITUTIONAL SERVICES PRIVATE LIMITED**

**Moderator**

Ladies and gentlemen good day and welcome to the Bajaj Finance 1<sup>st</sup> Quarter Financial Year '15 Results Conference Call hosted by JM Financial. As a reminder all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Karan Uberoi from JM Financial. Thank you and over to you, Mr. Uberoi.

**Karan Uberoi**

Thank you. Good evening everybody and welcome to Bajaj Finance's Earnings Call to discuss the first quarter numbers. To discuss the results we have on the call Mr. Rajeev Jain who is the CEO; Mr. Pankaj Thadani who is the Chief Compliance Officer and Mr. Sandeep Jain who is Head of Investor Relations. May I request Mr. Rajeev Jain to take us through the financial highlights subsequent to which we can open the floor for Q&A session. Over to you, sir.

**Rajeev Jain**

Thank you Karan. Good evening to all of you and welcome to the call. I hope you had an opportunity to download the Q1 Investor Presentation. There may be a little bit of confusion on it given that we have just unveiled a new group website so both Bajaj FinServ and Bajaj Finance are part of the same website now but I hope you have managed to download the same. We have also added a few sections to our quarterly investor presentations now to help you to demystify the overall company and the business model. The quarter gone by has been I would say a good quarter for us as a company. If I was to essentially state our assessment of it I think given the reasonably weak external environment has been an outperforming quarter I would caution or hasten to add that we should not we are looking at the balance of the year in a cautious manner especially pre budget if I was cautiously optimistic; post budget I am a little cautious.

So I would not read these numbers as given for the balance three quarters. I would; however, also add that quarter two will be the critical quarter or the most critical quarter from there on hopefully the base effect or there is some level of expansion in the broader economy may help us keep the momentum going.

In the interest of time I jump to slide 16 of the investor presentation. As I said pretty strong good quarter for the company; very strong volume momentum. We dispersed for the first time over a million customers to disburse close to 1.25 million customers in a quarter. Credit performance across businesses remained strong when I come to the loan loss and provision number I would cover in some greater detail we have taken some level of accelerated provision which I will cover when I come to the provision point.

The Two-Wheeler business; however, de-grew. It declined by 13%; three wheeler business declined by 20% in quarter 1. I have shared in the past that we are consciously readjusting the level of beta in our business and going after more secured assets which largely means Mortgages and Loans against Securities assets. And as a result with a clear focus on growing sustainability of our business rather than pure return on assets. So we continue to stay in that

direction as a result the NII growth is much faster; the volume growth is faster than NII growth; NII growth is slower; volume growth is faster or NII growth is slower than volume growth and net income growth is slower than NIM growth. It is by design rather than by an outcome. Our penetration rates for two wheelers remained steady at 28%. We continue to operate in 16 key states and 138 key dealers for Bajaj Auto along with the 2,000 odd spokes areas present in.

Consumer Durable business had a pretty solid run we disbursed just to tide short of a million customers at 988,000 customers which is a year-on-year growth of 34%. But if you break this 10% of the growth came from digital products financing which we started 18 months ago. We broke a very large customer relationship on an account which is Samsung. Samsung has now taken as national. Right now we are doing Samsung 0% only in 11 cities because we are not able to support their distribution depth that they have across the country. So we are doing in phase's launches with Samsung.

It depended on us rather than them so we are taking a few cities quarter at a time. Geo expansion in the last one-and-half year added 30,000 accounts which is 3%, 4% so 14% of the growth just came on account of either more products or from more channels. The 20% growth essentially came from core growth. Our assessment is that our penetration rates have in the air conditioning business have also gone up; financing is also gone up because our assessment is overall Consumer Durable growth for first quarter would be between 5% and 7% it will not be more than that.

So our internal bricks are adding to higher growth rather than volume growth in the marketplace. Lifestyle business has now started to mushroom in to a full blown business. We did for the first last year full year we did 110,000 customers; this year in first quarter itself we have done 56,000 customers. It is 216% growth year-on-year. I believe the business is in a pretty good shape. We are looking at the business delivering 70,000 to 75,000 customers in the current quarter. So by next year it should be half a million customers new business which will be the fourth year of launch of the business and it should grow in to a Rs. 25 crores to Rs. 30 crores PBT business.

So the investments that we made or the call that we took of doing category extensions has clearly borne fruit in the third year. Cross sell the heart of the company remains strong; personal loan cross sell to our customer at Rs. 355 crores in the quarter was strong; life insurance of Rs. 70 crores; general insurance less than a 15 months only initiative did Rs. 24 crores in the quarter. Credit card we hardly doing any and our application continues to remain pending with Reserve Bank was very soft at 3,000. EMI cards very strong momentum at 400,000 customers; 250 CRISIL ratings in the quarter. We just launched on June 1 an individual financial counseling product with customers buy at a fee comes at Rs, 1,000 fees with a view to counsel and guide them on their savings and their credit habits and behaviors.

We did in the first month itself of launch 3,300 of them. We think in next year this could be 100,000 financial counseling report it is digitally enabled now and our customers 5 million customers on our B2C portal can purchase it in a flash of 3 minutes. Salary personal loans our

affluent salary personal loans continue to grow in a healthy manner. It is year-on-year grown well. We did close to Rs. 300 crores. This plus personal loans cross sell put together we are now virtually doing close Rs. 225 crores to Rs. 230 crores of personal loans a month. Still much smaller than what our assessment is HDFC Bank does which is close to Rs. 1,100 crores to Rs. 1,150 crores a month. So lots of headroom to continue to grow credit performance remained strong so we are continued to grow this in a sustained manner.

Rural Lending for the first time in our press release as well we have now started to cover this as a separate business. This was the first quarter where it is nine months to launch we did Rs. 50 crores of disbursements in a quarter. We have gone live on first of July with 14 new branches and 56 more spoke. So this business will start to grow much more strongly from the third quarter onwards of the current year if the monsoon do not play foul.

SME businesses, which are Business Loans, Mortgages and Loans against Securities, continue to grow. We slowed our pace of growth in the mortgage business due to the delinquency misreporting issue that we had in the month of May but by the time largely in a manner the quarter was through. We are back to growth in the mortgage business any which ways from end of June onwards. The businesses all three businesses of Loans against Property, Home Loans for self-employed; loans against security and Business Loans continue to grow in a solid manner. Business loans we did Rs. 700 crores. We launched an existing customer analytics based model which is what we call BLUS which is business loan for existing customers that helped grow business by. So 70% growth that you see 25% of the contribution is actually come from that.

Doctors, we announced slicing of the business as a separate business itself it is right now a channel we have slicing that out of the business effective first of October and that should grow in the next three to four years as large as being a business loan business. Mortgage business crossed Rs. 2,000 crores of disbursements between LAP, Home Loans, salaries, and Home Loans, self-employed. We did make a provision of Rs. 5 crores in the current quarter. So out of Rs. 83 crores of provision Rs. 5 crores was an accelerated provision made here. End of 40 days our assessment is the maximum hedge that we may land up taking on account of that under reporting or misrepresentation of delinquencies would be probably between Rs. 1 crores and Rs. 1.5 crores on the outside. The 15, 17 accounts that are there will establish full engagement with those clients at the senior most levels and it is only in one client where I would say the distress sale would exceed that of the loan that we have otherwise we are well below 50% to 60% between 55% and 60% would be the current distress sale valuation of those clients where the misreporting was done.

The loans against security business had a very strong quarter. We crossed Rs. 1,000 crores of AUM to Rs. 1,100 crores in the current quarter. We also took another difficult decision or tough decision in the current quarter to wind down the construction equipment business. Over the last two years we have been in remedial mode the remedial phase was behind us. We were now ready to grow the business. As we ask the business seems to put together in the next three plans clearly what emerged was that with the level of execution risk the outside ROE delivery

after further two to three years of investment would be a best case scenario of 13% to 14% return on equity. We have already invested four years in the business it was not a prudent decision to again go in a reinvestment mode for a with the level of execution this baked in to deliver 13% to 14% return on equity. As a result we have decided to wind it down the balance portfolio that is left is around Rs. 400 crores it is an installment based loan it will fully wind down in a natural manner in the next 15 to 18 months.

We do not foresee any credit losses or more than business as usual credit losses to emerge from this business in the residual period of this portfolio that will stay with us. Commercial infra business we remained in a pause mode and did not do any disbursal. We did however take an accelerative provision of Rs. 5 crores for stressed account which in the foreseeable two to three quarters may actually slip in to an NPA. It has not flown in to an NPA right now but it may slip in to NPA we thought it is prudent to go out and take a provision on the account.

Overall gross and net NPA for the company remained healthy very steady at 1.13% and 0.27% respectively. Interest cost I am on Slide #18 remain pretty stable, The mix remained very, very steady and we continue to review the treasury management practices to strengthen the business on the liability side or on the liability side of the balance sheet given that we have a strong momentum on the actual side of the balance sheet.

In the current quarter we originated as you are aware we have launched retail deposits in fourth quarter we garnered Rs. 137 crores of fixed deposits taking the total deposit book to Rs. 345 crores. I had articulated there are focuses clearly on mass affluent and above clients. The average deposit that we have is 2.8 lakhs and the tenor is 26 months. The weighted average balance sheet for us as a company is between 25 and 26 months, (Inaudible-15.10) neither are we are paying so it is well matched in terms of what our overall maturity is from a balance sheet within the asset side is concerned. We assigned close to Rs. 400 crores of Mortgages which is key to our model of growing the mortgage business. We have launched financial business report I talked to you about a first of its kind individual counseling tool. We did for the first time launch a brand campaign it is called "Go for Great". This is for the first time we have gone out and actually spent advertising dollars. In the current quarter we have booked cost to the extent of Rs. 8 crores in our overall OPEX as a result of this campaign.

The company continues to be very focused on social media. It has now close to 1.4 million Facebook fans and 180,000 LinkedIn followers. Last year we as a company were the 43<sup>rd</sup> best employer and the top three financial services company to work for by Great Places to Work. This year we have remained the top three financials as an employer but have moved 20 notches as the top 25 employers to work for. We have moved to 23<sup>rd</sup> best employer in the year to work for in 2013-14.

We were ranked as a top 10 most influential brands by LinkedIn. So that really the management commentary. I am myself, Pankaj, Sandeep are open for any questions.

- Moderator** Thank you very much. We will now begin the question and answer session. The first question is from the line of Parvin Gala from Gandhi Securities. Please go ahead.
- Parvin Gala** Sir, my question is regarding the circular yesterday by RBI regarding Infrastructure lending. Now that those exemptions are there for non-SLR and CRR would our company also pursue Infrastructure lending and raising long term corporate bonds?
- Rajeev Jain** See one is for banks; one is too premature given something has happened yesterday. Two it is for banks. Three, I mean given the stress in the sector I think we have a long way away from growth back in the sector. Four, looking at our experience with the last three, four years we think the best case full cycle return on equity model is probably 12%, 13%, 14% best case. With that being the assessment of ours and our experience we rather do focus on our growing the lines of businesses than to focus on something on which our experience is not been good and the external market continues to be challenging.
- Parvin Gala** Sir, why I ask this question is suppose if we still dream to be a bank someday like just how it is working for IDFC today then because we will be a bank 15 months down the line. They will be able to take the advantage of all their current loan accounts also which will then take in to the bank and they will get the benefit of exemption. So if we start today and tomorrow whenever down the line if we are a bank we could take that advantage. My point was that. So in that sense do we have any game plan or not at all? Just that is what I wanted to know.
- Rajeev Jain** The answer is, no. And I am sure this is only start of good things to come for IDFC there will be many more so we will have much greater clarity when we want to start Infrastructure I guess.
- Moderator** Thank you. The next question is from the line of Mangesh Kulkarni from Almondz Global Securities. Please go ahead.
- Mangesh Kulkarni** My question is regarding the ad campaigns which we have launched. You said around Rs. 8 crores you have spent in this quarter. So going forward what will be the cost per quarter for this ad campaign?
- Rajeev Jain** Given the difficult environment we will probably I mean there may be a small cost in second quarter and we will review based on the P&L momentum we called for third quarter. So that is really where it is. It is a discretionary spent Mangesh, so clearly discretionary spending is based on the P&L velocity. Then the small cost which is committed cost in the current quarter much smaller than the Rs. 8 crores and going forward we will take a view based on the P&L velocity.
- Mangesh Kulkarni** So in this festive season it will be more like that way we have planned?
- Rajeev Jain** The point that must mention this year all festive seasons have much ahead. The season is virtually 25 days ahead. So there is any which ways the Navratra is breaking virtually on 24<sup>th</sup> of September which normally happens in 15<sup>th</sup> of October. So we are anyways seeing as to how the

quarter will play out. You guys might have to look at the year as not on quarter you would have to look at half-a-year for comparisons. So we are watching the situation from a discretionary P&L campaign standpoint.

**Mangesh Kulkarni** And sir, on borrowing and deposits front what was the amount by the end of this quarter?

**Rajeev Jain** Deposits?

**Mangesh Kulkarni** Retail deposit as well as borrowings together?

**Rajeev Jain** Rs. 345 crores.

**Mangesh Kulkarni** Rs. 345 crores deposits?

**Rajeev Jain** Yes.

**Mangesh Kulkarni** And total borrowings?

**Rajeev Jain** Rs. 21,000 crores.

**Mangesh Kulkarni** And what was the amount of provisions you have made because of this recent fall by the NPAs?

**Rajeev Jain** Rs. 5 crores.

**Mangesh Kulkarni** And what was the total exposure involved in this front?

**Rajeev Jain** Around Rs. 30 crores to Rs. 33 crores total. Setting in 30 days to 120 days.

**Mangesh Kulkarni** And how much of this is recoverable or we need to make the entire provision for the order?

**Rajeev Jain** We think you will see a reversal of Rs. 3.5 crores out of the Rs. 5 crores that you have made provision for as the loans regularize or they exit the relations.

**Mangesh Kulkarni** And sir, given this new government and looking at the budget proposals what will be our business growth assumptions now because lot of emphasize is on the assets?

**Rajeev Jain** That is we will see it quarter at a time as I said in our assessment as a management it is a quarter of outperformance we did not expect this stronger performance. I would maintain that stand. We have said in the beginning of the year a 16% to 18% corridor would probably today say 15% to 17% corridor. I would say 20% to 25% balance sheet growth I will stay with that. Quarter two is critical as we ride through quarter two we may re-guide the guidance for the balance of the year. But I do not think anything has changed on the ground. In fact if I was cautiously optimistic a week ago I am now cautious because the budget is short on specifics. So one is not really very clear as to direction is clear; Infrastructure spending will happen but I

think the last mile or from the top to the last mile it is a really long walk. So till I am a little more circumspect than I was. And I think we are going to take longer for the buoyancy which you guys are representing through markets to reflect in the broader economy.

**Mangesh Kulkarni** Right sir, but I think the increased income in the hands of the retail individuals that will lead to some discretionary spends and it will help companies like us?

**Rajeev Jain** We got a call there is no tax deduction it is DA. I mean inflation adjustment is what has happened. We can take a reason and say it will lead to buoyancy in consumption I do not think so.

**Moderator** Thank you. The next question is from the line of Nidesh Jain from Espirito Santo. Please go ahead.

**Nidesh Jain** Sir, my question is on one of our slide. On Slide #12 you have highlighted that the outlook for loan against property will be in yellow color. Any reason for having that?

**Rajeev Jain** It is a quarter gone by rather than so probably the word outlook should be changed. It is Q1 performance. So our apologies I think you should read outlook as quarter gone by. So because of the incident that happened in the loan against property business and because we do not foresee it leading to a loan loss situation it was not red it was yellow. This is performance ranking of the quarter gone by.

**Nidesh Jain** And in two-wheeler and three wheeler it is purely because of growth but you do not see any pressure on the credit quality, right?

**Rajeev Jain** No, no pressure on credit quality so this is a broader segmental outlook in a reasonable manner. So if I take all the way if I cut this in to a P&L look at the volume growth; look at the NIM growth; look at the OPEX growth; look at the loan loss growth and if the outcome of all this is green, it is green; it is yellow is yellow; red is red.

**Nidesh Jain** And then secondly, historically we have been criticizing Samsung 0% financing which I think last year in one of the call you have said that it is?

**Rajeev Jain** I have not criticized. I had criticized the banks who have done it at 14% IRR. So what we and that was my criticism and that is exactly what we fortunately managed to stand by or stand by. The 0% relationship that we have with Samsung is exactly at the same IRR that we do all our Consumer Durable businesses at which is between 23% and 24% IRR. Our criticism was not for we think it is a very, very large segment. We think we could be financing in two to three years; in two years not three years a million Samsung phones at 0%. But it is unviable doing it at anything less than 23% to 25% IRR. That was our criticism.

**Nidesh Jain** And sir, thirdly on a retail deposit what is the average cost of retail deposits?



- Rajeev Jain** Average cost in this blend it is 26 months tenure without the SLR it would have been at 9.84%. You add SLR to it that would mean around 10% is what it would be.
- Moderator** Thank you very much. The next question is from the line of Kuntal Shah from Axis Holdings. Please go ahead.
- Kuntal Shah** Rajeev, normally we see abroad that consumer is the last guy to slow down in terms of spending and last guy to revive in any economic cycle. So what you are saying is a function of that or it is just a Bajaj specific because of your product mix or your cautious stance or is it endemic to the entire industry? And secondly, can you give us some flavor of what you are doing in rural and loan against shares and especially new initiative like we take kind of E-tailers for online loans for the shopping clients? If you can give a granularity in terms of ticket size the plans and market share?
- Rajeev Jain** Classical, yes I mean so clearly consumer is flowing so if you are in a cyclical slowdown by now the revival from the corporate side should happen. I do not think that is the case it is the way I see things as; you guys know better. I think we are in my assessments in a structural slowdown and that is why the expectations from on policy front were very high because structural slowdowns can only be fixed by policy actions not by words. So given that the way I see and that is why I correlate to what I said. I am now cautious and cautiously optimistic. So that is point one. Having said that I would also add Kuntal that corporates are highly leveraged in the country they cannot revive the investment and kick start the investment cycle. Consumers are very less leveraged. The level of leverage for the first time last year consumer debt-to-GDP inched up a little bit by 100 basis points if I remember right.
- So consumers are still highly deleveraged or unleveraged. So you will see what plays out. As earlier a person had asked some money has been put in to the hands let us see how I think it is inflationary adjustment rather than anything else. Let us see how that plays out. On point two, you had asked about rural; 31 branches is what we need to be breaking evens/becoming accretive to the as a business model. We can start to be in money. We were in 14 branches plus 56 more spokes we have added 14 more on July 1. We have added this time Gujarat. It is a learning that on the highways those branches breakeven much faster. So these 14 branches all 14 have come in Gujarat they are mostly on the highways out of 14, 11 of them along with spokes. We think by November-December the business will start to be profitable on a month- on-month basis between November and December. From there on as long as and we have invested deep in technology we have looked at new innovations. We think from there on it is a steady multiplier effect that we will need to do to continue to grow.
- I remain committed that in a five year horizon of which four years have lapsed this could be a Rs. 100 crores net income business model. We are evaluating very seriously this point of time in the older branches that we launched a year ago given that we have branch Infrastructure can we launch MSME lending. If I go back to Bajaj Finance seven years ago it is a consumer company. We started as SMEs in it in a gradual stable manner. We have now branches in rural markets and these markets from the same Infrastructure I can start MSME lending. We always

do business we go we launched consumer business at first in cities and towns then we follow it as a SME. Same approach we want to take in rural as well. So you will see the multiplier effect happen. We have disbursed Rs. 50 crores for the first time. I think in the current quarter we will land up disbursing Rs. 75 crores.

So the volume momentum should pick up. Last one month however for rural market is not been good demand has “we have virtually collapsed in businesses like Consumer Durables”. Of course if monsoons fail we could see pick up in gold loans because we will be want to monetize if monsoons comes we will have so we can play on both sides as a company from a business model standpoint.

We have gold loans to monetize and we have Consumer Durables to provide consumption. Third point, E-tailers we are in active conversations at this point of time with both Flipkart and Snapdeal. They are very excited by our 2.1 million EMI card franchise. They are talking to us we are just launching very soon by around 15<sup>th</sup> of August an online CD application which you can fill from a mobile app or from a laptop and bring that to the store so there you would not even have to wait at the store that will also help them bring new customers and apart from EMI customers. So that work is happening parallelly. I think you guys give more weightage to or I mean I understand it is “The sexy part of the business” that dealing in the digital space but I think for a foreseeable period it will be a small exciting part of it but not will be very large contributor.

I will give you a small example. For the last two years we have been investing in digital personal loans. It is now residual up to close to 16%, 17% of our monthly contribution but after a lot of effort. We just launched Business Loans online we are excited but the effort to reward is very low it is a very long investment orientation. I do not mean investment from the P&L; the investment from a capability relation standpoint. So that is really where we are on that.

**Kuntal Shah**

And any favour on loan against shares in terms of ticket size?

**Rajeev Jain**

Loan against shares we changed the leadership change hands we got in so there was a change in leadership he has brought in very sharp focus to the business. He has been with us for last four years but he was on the risk side of the loans against shares business. He has moved in as a business manager. The focus remains very clearance in HNI, ultra HNI client very marquee promoter relationships. Probably 10, 12 of them the focus is really remains retail it is a small team. We are expanding B2B to C model. There are a few things that we are working on which you will hear about in the next two to three quarter in this business.

We think the level of risk in the business if you are very clear about the companies that you will deal with or companies against which you will do lending to and if that number is between 500 and 700 companies the risk is far more measured than I would say even mortgage business at one level because I can press the sell down button and exit the account by end of the day unlike in Mortgages. It also increasingly given our super affluent focus in the mortgage business and there are lot of clients who may come and say give me part of the money against

loan against property, give me part of the money as loan against shares. We get a very few transactions but we think it could be the way forward even in the SME business in years to come. So that is really where we are.

**Kuntal Shah**

Just one last question. What cautious stance you are foreseeing when I correlate with the sales of Consumer Durable it is almost coming up flattish for whatever results we have seen. So you said the corporates are not revivals so our expectation at least my expectation is corporates will take at least three to four quarters to revive. So you think the consumer would be also revival will be after that or your internal expectations are before that?

**Rajeev Jain**

Kuntal, somebody told me recently that if India wants to start publishing the US style labor data of course that is also increasingly high more than it reveals that 6.1% number would look like 20%. Now you tell me no job and who will buy Consumer Durable or personal loan or who would I give personal loan to a road by whom? So consumer remains a subset of the broader economy. So I do not want to say consumer is decoupled from the corporate. I think having said that you may say then how come you are doing well? 60% of the economy remains service sectors they have gained from the rupee depreciation in a reasonable manner. IT sector remains one of the very large wallets. Manufacturing sector is a large employer; services where the wallet is. So there are many moving parts to it. There is no single answer Kuntal. Net-net the broader strong momentum that we were all expecting could happen in the third quarter or in the fourth quarter. My assessment is post budget is you will have to wait longer. It is what my limited assessment is. You guys know better and I am sure we will I may be wrong. It is my assessment we will know as we go along.

**Moderator**

Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

**Shyam Srinivasan**

I have a couple of questions. First is on this under reporting of the delinquencies. So now the quarter has gone by what have you done in terms of the changing the processes and the systems as a fall out of this whole exercise that is my question. The second question is on capital consumption. So if you see this quarter we have seen about 90 bps of QoQ reduction in capital. So is there something that apart from the growth is there something else is there a one off there which seems to be quite a large move there?

**Rajeev Jain**

So Shyam, if you go to Slide #23 one you will see the first step as this happen was for us to do a rapid portfolio review at that point in time. Post that we have now done a full review of all our portfolios in the SME business and have found no recurrence of that action. That is point one. So clearly it was a rapid portfolio review told us it was contained in the loan against property business that is really where and in a very small manner in a home loan self-employed business that is where it was. We have now gone out and done over the last 40 days a full review of all our SME businesses. SME gross sales, Business Loans, loans against shares and so on and so forth. So that is point one. In the consumer businesses we do not take checks any which ways after 27<sup>th</sup> of the month. Second point, we have done a good job so far of what we call the risk management piece, the liquidity risk management piece in a reasonable manner we

have been investing now for the last six months on market list piece. What we are now was this was the case of what I call an operational risk management gap. It is not operational risk management gap it is an operational risk management gap. We are now setting up a separate unit in the company called operational risk management which is anyway part of our plan to invest in that in the current year we have accelerated that. We are hiring an operational risk head. Some of these is between the risk management and the operations risk management that the operational risk function goes out and sits. It will most likely work for me as an operational risk function or one of our senior guys. If you look at a lot of these areas like these which could be where we could have a likely exposure in.

So that is the second point. Thirdly, what happened was in the case we said we invest in analytics cutting edged and that this was a very simple thing that was being done. So clearly we realized that we were not infallible as well. So we have further tightened we have taken our risk management teams to further task and created a set of different or new metrics that we will also follow-on on an ongoing basis. These are the three things that we thought we have to do which we have gone out and started to execute and implement. The second point on capital consumption because the CD did exceedingly well. The consumption was higher and it is 0% loan for eight months you will see the run rate slowdown in Q2. It will again accelerate in Q3 which will again slowdown in Q4. So if you see the disbursement is 9,000 to 66 crores it is a million account at Rs. 27,000 or Rs. 20,000 of net loans that is Rs. 2,000 crores. That Rs. 2,000 crores Shyam, is coming back in the next six months' time.

But it is not like I am not disbursing anymore but I do a million accounts in quarter one I will probably do around 700,000 accounts in Q2. I am just giving you an example not a guidance. Which means 300,000 accounts at Rs. 20,600 is naturally going to come back to me from a consumption. So the burn will slow down dramatically in Q2. It will accelerate dramatically in Q3. Having said that as I said earlier we foresee that sometime first quarter next year which could be one quarter prior or one quarter post. So I would take a corridor of three quarters with quarter one as the point at which we may go out and raise money. It may be one quarter prior or one quarter ahead depending on how we see complete performance and the external environment and the policy making at the country level evolve.

**Shyam Srinivasan**

Just on Slide #12 it is a fairly good slide in terms of your entire business. Where are you seeing the maximum pressure in terms of your IRR from a competitive standpoint?

**Rajeev Jain**

Clearly secured the businesses like loan against property and Home Loans are in tremendous margin pressure. It will not change for the foreseeable three quarters because until corporate loan demand comes back everybody is still has to grow 14%, 15%, 16% and that growth is not there. So people are doing SBI is giving mean home loan at 10.10% it gives Bajaj Finance Rs. 1,000 crores at 10.05%. Citibank is giving us money at 9.95% is giving me money at 9.9%. So it is crazy situation clearly and that is not going to change if what my view is on the corporate loan demand will remain weak.

So I think we will have to persist to it for the next three quarters. We are using this time to review our products and processes and finding out how can we be more efficient because we have a long term view unlike lots of people who may have; we are fixing business model we are fixing the product features; we are fixing the processes it would not change. So that is on the margin side all three loan against property, Home Loans both these. Two wheelers, three wheelers we have tremendous profit pressure because they have a full scale business their volumes year-on-year are down 20%. A business which is a growth business or business which has a fully invested in OPEX business with a 20% year-on-year decline in sales which has on average door-to-door maturity portfolio of 20 months we will see massive profit pressure. So they are seeing a massive profit pressure.

They contribute as I said in the past 15%, 16% of our overall P&L. Over time it is gradually going down not as a result of they are going down in profitability but just overall net share of profit pool will keep going down. Seven years ago it was 90% today it is down 15%. Hopefully it will come down to 8% or 10%. But until that happen their average performance would hurt the company in a small way but it will hurt. So that is really where the profit pressure is. Otherwise I would say we are on a pretty good shape. Two reds – Construction Equipment as I said earlier we have decided to wind down. Infrastructure we do have portfolio related pressures in all the accounts we are in consortium so we are in the same boat which may sink or swim. Right now we are swimming but in a quarter we may sink and may swim again in the next quarter. We will play it by the year.

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

**Kaitav Shah** I just had a theoretical question. If you just do standalone LAP cum housing product what would be the ROA that you think Bajaj Finance would be able to do?

**Rajeev Jain** I cannot answer you directly let me make that point but let me answer you differently I am shutting down the Construction Equipment Financing business because the hurdle rate of 13% to 14% return on equity was not clear. So clearly it makes more than that. That is point one. Anybody who is building a book today will not meet those hurdle rates in the LAP business given where the current pricing pressure is. Because I have a historical portfolio that giving me time to re-optimize; that is giving me time to create more. I have velocity as a result I have operating leverage I am doing better or a whole lot of those who have this business for three to four years period may be doing better. So that is the second point. Third point, for the foreseeable period which is I would say three to four quarters you would see people in this business ask the same questions as in Home Loans. Easy to do business; tough to take money. You will see people ask this question very soon in the next three to four quarters is what our assessment would be.

**Kaitav Shah** So my question is will we start seeing better productivity in terms of cost income or was the next two, three quarters was mostly?

- Rajeev Jain** I think it is a valid point. Answer really is this asset class is now established. The time is not to create asset class, so there is enough business to do. The time is to focus on metrics leave business if you have to. Just deliver on ROE and as a result focus on operating efficiency; deliver operating leverage; do product innovation that is really all that has to be done. There is no problem with supply on the business. If companies change gears they will create a very large profit pool for years to come. If companies remain what they are doing they will see this business like the home loan business very, very soon. Actually poor is in home loan business because the fact remains that when I look at this business I believe full lifecycle we will have a 30, 35 basis points loss rate. Home loans full lifecycle we will have only 15 basis point loss rate. So there will be worse off than home loan business in a lifecycle view.
- Moderator** Thank you. Our next question is from Aadesh Mehta from Ambit Capital. Please go ahead.
- Aadesh Mehta** I have few questions, sir. Regarding the FM plugging the arbitrage between debt funds and bank deposits just wanted to know how much of the liabilities would be sourced from mutual funds and what impact would that have on the borrowing cost for us?
- Pankaj Thadani** This is Pankaj Thadani. Yes, considerable amount of our borrowing does come from the fixed maturity plan pool of the mutual funds between January, February, and March because that is when the FMPs are really launched because sometimes some in September and some in January, February, and March so that would. So basically our overall money market and bank borrowing percentages we have shared with you but FMP would be I think around 10% to 15% of our overall money market borrowing. So to that extent it will get impacted but liquidity will not be a constraint. I do not think it will have a significant impact on the weighted average cost of funds.
- Aadesh Mehta** And sir, regarding the delinquency misreporting?
- Rajeev Jain** So two things – One, banks will see the larger the credit deposit ratio may improve as a result the overall pricing may come down. But a more immediate benefit that I foresee is that our FD business may become more attractive as a company. So clearly FMP investors or people will aware of the risk but also they were chasing in a limited manner yield. They may say while there is no TDS benefit their but at least they will get better yields than a deposit. So we may gain on the FD side of the business.
- Aadesh Mehta** Sir, and regarding the delinquency misreporting bid did I hear that in one case the distressed valuation was lower than our estimate?
- Rajeev Jain** Yes, it is a case in yes. So it is a three year old loan but as you may be aware in lots of parts of Andhra Pradesh the diminution value is much, much lower. So it is a client whose account is in Vijayawada, it was at it was at three year ago we lent him at 60% LTV. When we look at it today we are seeing the distress value that is close to 95-97%. So that is really why I said in one of the accounts we may lend so I may out of the Rs. 5 crores that I provisioned I may lend up taking a Rs. 1.5 crores charge eventually rest may get written-back overtime.

- Aadesh Mehta** So sir, do not we have a process where we periodically reevaluate the kind of valuation we have on the properties?
- Rajeev Jain** We have 11,000 odd properties each valuation cost Rs. 2,000 to Rs. 2,500. We do random 15% to 20% depending on the state a legal technical and valuation to do a portfolio assessment rather than a client wise assessment. That is what we do rather than every account to be valuation done.
- Aadesh Mehta** That is a fair point, sir. And sir, we appreciate that our cross selling has really picked up in FY14 especially in our SME customers a fee income bearing products have almost doubled. But despite that fee income has been muted for FY14. So am I reading it correctly or there has been some classification change in fee income or some one-offs?
- Pankaj Thadani** By large I think see our sale loan cross sell does have a little bit of fee income but it is more so on the loan products side. So we do get a lift in the interest and so it is not fair to look at only the fee income line it should look at in a composite basis.
- Aadesh Mehta** And sir, like what kind of fee income growth are you budgeting going forward in foreseeable future?
- Rajeev Jain** So you would not see fee income coming from same product being sold. You would see fee income coming from more products being sold. Until last year we were selling life insurance now we are selling health insurance. We have just launched SME insurance; we have just launched financial fitness report. SAP credit rating we already sell. As we add more products you will see more income. You will not see more life insurance being sold. You will not see more health insurance being sold. You will have to sell more products and create more channels to do more fees. So either more products or more customers not more to same customers is the philosophical point I want to make. We realize that fee is a very important driver of the ROE business model that we have so the focus is reasonably strong and we think it is sustainable in nature.
- Moderator** Thank you. The next question is from the line of Nischint Chawathe from Kotak. Please go ahead.
- Nischint Chawathe** I think I missed this. Did you give a guidance on loan growth for the year?
- Rajeev Jain** I had said Nischint, in the beginning of the year actually I did probably on net income growth but I will say it again. Our view is 16% to 18% net income growth on a full year basis and 22% to 25% balance sheet growth. I would say 22% to 25% we will do may be in a small upside here and there as based on how second quarter goes. On net income growth I would say between 15% and 17% rather than 16% to 18%. I am watching the quarter two very carefully. I would not be I would say this to all of you do not be swayed just by Q1 we believe we have outperformed because the environment is very, very tough and as you would wait for results of various companies come out whether in the non-banks space, banks space or in discretionary



consumption space you are going to be surprised by the that is my view by the outlook. Sitting where we are we think it is taking massive efforts to sustain momentum.

**Nischint Chawathe** Just for my understanding is it possible that the Consumer Finance AUMs actually declined QoQ between the second and the first quarter or between the fourth and the third quarter?

**Rajeev Jain** It is always declined.

**Nischint Chawathe** No, the absolute amount?

**Rajeev Jain** Absolute amount also declined. Last year it did not decline I think. But in all prior years it always declined. I think last year was an exception and that is why it is an important point you are making and that is why we outperformed last year versus industries. But I am just looking at disbursement quarter one last year was 6,250, it did drop even last year Nischint, to 5199.

**Nischint Chawathe** No, I am looking at the AUM number?

**Rajeev Jain** AUM will not decline. Our AUM momentum Nischint, is adjusted for what Shyam had asked earlier the question will slow down in Q2 but it would not decline it will only grow.

**Nischint Chawathe** I am just talking about the Consumer Finance portfolio?

**Rajeev Jain** On Consumer Finance we do not share segmental but it has declined, yes. It does decline and it would decline. It mirrors more of disbursement in Consumer Finance but on company level you will see AUM grow at a Consumer Finance level if I did segmental reporting Q1 to Q2 always decline; Q3 to Q4 always decline. And that is really what some of our parts model is that Q2 and Q4 are non-Consumer Finance business is support business growth. Q1 and Q3 belongs to our consumer businesses. The drivers are pegged that way.

**Moderator** Thank you. The next question is from the line of Sweta Sheth from Stewart & Mackertich. Please go ahead.

**Sweta Sheth** Actually, most of my questions have been answered just one thing. You had mentioned about the accelerated provisioning you had done this quarter. Sir, if you could just give me a some flavor as in what percentage of your portfolio is still in the stressed category which could require accelerated provisioning going forward? And some sense on the asset quality basically?

**Rajeev Jain** So clearly it is in the Infrastructure accounts that we have a what we call a sense of perceived stress those accounts are taken on a month-on-month basis that is really how the Infrastructure book of the entire country is right now running that way. We have a Rs. 400 crores portfolio there in that space. We have been on a pause mode for the last two years. We have got paid down in some of the accounts. So two years ago this portfolio was Rs. 730 crores today it is around Rs. 420 crores to Rs. 425 crores. There is a client could sit in 30 days, 60 days and current. This is really how some of the clients are sitting in. We have taken an accelerated



provision on account of one client where we have a Rs. 50 crores exposure. We think at some point in time during the year that client may slip in to an NPA. And that is why we deemed it prudent to take an accelerated provision on account of that client.

**Moderator**

Thank you very much. The next question is from the line of Sampat Kumar from IIFL. Please go ahead.

**Abhishek**

Rajeev, this is Abhishek here. Actually just wanted to ask you about the cost-to-income I am sorry if I missed it earlier in the call. So you have been saying that you have been reinvesting whatever cost saving you are having in to your business but when ideally would you expect to see some amount of operating efficiency on the overall business and what is the kind of trajectory you will see going forward?

**Rajeev Jain**

So two-three things Abhishek that we are doing. One, Q1 cost-to-income ratio was higher than last year. It was against the operating leverage we delivered actually negative operating leverage that was on account the Rs. 8 crores spent that we booked on a corporate branding campaign in the current quarter. Adjusted for that this number would have been lower. So if you see the operating expense is Rs. 343 crores that say 2.5% down if I did not have the onetime expense of Rs. 8 crores. So that would have brought me down from 45.946% to 44% probably lesser. So that is one part. Rest investment themes right now at two, one being the Rural Lending business where we are investing in and the Wealth Management piece. These are the two investment themes that we are in that number in quarter one we would have invested rather Rs. 10 crores. Just from an orientation standpoint. It has brought us down by another 2%. So we will I think it is a valid question we have been a growth company I have myself articulated that we will start to deliver our operating leverage but we at every point in time we will end up seeing more opportunities and more capability creation pieces than managing cost-to-income. We will share from next quarter the waterfall of how our investments, where our core is, and what I have articulated to you right now we will share. We hope to see some benefits flow in quarter two. But one would one-timer; second is an investment theme by December as I said earlier the Rural Lending business has stopped earning cash. So that will be out having said that by the time as I said earlier I may launch MSME lending. So we keep peeling the onion and keep finding the investment opportunities. As long as this is not coming in to the way of us delivering growth we are okay but I think we need the operating leverage I agree.

Lastly, I did not cover I should. We are right now on a very large process reengineering from a cost optimization standpoint. It is a big exercise that we are running in the company but it will improve our velocity and will improve our cost of operations or credit on operations cost it will drop by 35% to 40%. But only credit on operations cost not the total cost.

**Abhishek**

By 35%, sorry I missed that part?

**Rajeev Jain**

35% to 40% next year on a full year basis on the unit-to-unit cost. We are virtually at the end of it. We are getting in to implementation and it will go in to production by fourth quarter of the

calendar. From there on we will take the next large item of our OPEX which is sales productivity. And by the time if the external environment improves, we could see clear real absolute and percentage benefits emerge.

**Moderator** Thank you very much. As there are no questions I will now like to hand the floor over to Mr. Karan Uberoi for closing comments. Over to you, sir.

**Karan Uberoi** On behalf of JM Financial I would like to thank Mr. Rajeev Jain and The senior management of Bajaj Finance and all the participants for joining us on the call today. Thank you and goodbye.

**Rajeev Jain** Thank you all. Thank you, Karan.

**Moderator** Thank you very much. Ladies and gentleman, on behalf of JM Financial Institutional Services Private Limited that concludes this Conference Call. Thank you for joining us and you may now disconnect your lines.