



“Bajaj Finance Q1 FY2017 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Bajaj Finance Q1 FY2017 results conference call hosted by JM Financial. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference call please signal the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Karan Singh of JM Financial. Thank you and over to you Mr. Singh!

Karan Singh: Thank you. Good evening everybody and welcome to Bajaj Finance earnings call to discuss the first quarter results. To discuss the results, we have on the call Mr. Rajeev Jain who is the Managing Director, Mr. Dewang Modi, who is President, Consumer Business, Mr. Sandeep Jain who is a Chief Financial Officer and Mr. Pankaj Thadani who is Chief Compliance Officer. May I request Mr. Jain to take us through the financial highlights subsequent to which we can open the floor for Q&A session. Over to you Sir!

Rajeev Jain: Thank you Karan. Good evening ladies and gentlemen. Welcome you to the investor call of Q1. The presentation for investors of Q1 have been uploaded on the investor section of the website. I will be drawing your attention to that presentation.

I jump straight to slide #17 of the presentation which essentially covers the Q1 highlights. As you would see already but I just add some texture to it. The company acquired 2.5 million customers, which is a 48% growth. The better part of that story is there are 2.5 million customers, 1.1 million were new customers and 1.4 million were existing customers. So clearly the cross sell rate for the quarter was 60% versus in general it used to be 40%-45%, so that goes on to talk about the value of the franchise and our ability to mine and analyze the franchise to continue to deepen volume with the client.

Assets under management grew 40% to just a tad below 50000 Crores to 49608 Crores, which is a strong growth on a Q-o-Q basis. Total income as a result grew 39% on the back of 40% balance sheet growth. PBT grew 55% and PAT grew 54%. Loan losses and provisions had a little bit of I would say it is little outside the corridor. It grew by 75%. In general, our profit growth to loan loss growth and core income growth are largely in a corridor of 5% to 7% here and there. In the quarter the loan loss and provision grew 75% because the company on a management prudence assessment basis took an accelerated provision in its mortgage book, which includes loan against property business and the self employed home loan business of 19.2 Crores. Adjusted for that the loan losses and provisions would have actually grown by 55%. Return on assets was pretty strong came in at 3.6% annualized and a return on equity was 5.5% quarterly annualized to 22.3%.

Gross NPA and next NPA just to qualify we are now reporting for 120 days pass due. Until last year we were reporting for 150 days pass due. Just to do the comparable the comparable this year is that the loan losses 150 days gross NPA last year was 1.69% ending on 150 days was 1.25%, a drop of virtually 45 basis points. Net NPA on 150 days pass due is 30 basis points which last year was 55 basis points; however, what we are required to report is now the 120 days reporting which stood at 1.47% and 0.41% respectively. From next April onwards we will as require by RBI be reporting 90 days. So we will have to bear with this comparables for at least one more year.

Capital adequacy was at 18%, you may have seen a drop from virtually 19.8%. In the month of July company had actually raised close to 1000 Crores, which is 972 Crores of tier II capital and including the accruals that are likely to emerge we think we will go back to 19.5%, which gives us reasonable coverage till March 2018 anywhere between January and March 2018.

Very quickly on management discussion if I would take you to slide #19 clearly credit growth in the banking system remains anemic. As of June 24, which is the last reported fortnight of the quarter that ended the bank credit growth, was 9.43%, clearly the stress in the banking system remains across commercial and SME. So far what gets talked about in general is the commercial NPA paid, if you look at the some of the numbers that we see from a bureau standpoint in the SME books, the number are as I could say threatening as they are in the commercial business.

Auto sector as you can see there is some growth but it is still I would call it anemic. Other than scooters and three wheelers rest of it growing in normal GDP line is not necessarily very strong growth is what I would personally argue.

Our two-wheeler and three-wheeler business I had mentioned from Q4 onwards last year they started to grow. They grew in Q1 as well. They grew 30% Y-o-Y. After a long wait of two years the business has now started to grow. There was a change in management sometime in the last year we had undertaken and since then and as the management team stabilizes and gets control of the business, business starts to grow again.

Three-wheeler business grew. That growth came largely on account of the fact that over the last two years we had faced credit and delinquency related issues last year the business had degrown by 40% so it is coming on the back of a very weak base that the growth was 106%.

Consumer durables ACs really sold off well on a base like that the business did 18 lakh customers in the quarter, which is a 37% growth. ACs really sold. I have not tracked whether the Blue Star and the Whirlpool have come out of the results. They are likely to be

good is what our assessment is because there is a long extended summer. Part of it they may have build in Q4 so that is what I would carry it because they rely on primary with a 30-day cycle at the very least.

Digital product finance, 244000, I am maintained many times that this business to be as large as the Consumer Durable business. It technically can be 2X but I just want to qualify also the 17.7 lakh accounts that you see in Consumer Durables also has 200000 accounts belonging to mobile digital products. So digital products actually in a way we did 450000 accounts in the quarter gone by. It is already becoming one-third of the overall Consumer Durable business. Does it rightfully have the potential with 2x the size of Consumer Durable market given that this market is 2.5x of the overall consumer electronics market the answer is a reasonable, yes. But it is a different segment, it a difficult segment much more difficult and less steady, sturdy than the Consumer Durable market is a negative. The positive is replacement cycle is much faster, but we are now beginning to see our efforts of four years in the digital product business that we invested is began to yield the results.

Lifestyle Business, growth is great 70% of Y-o-Y but base remains very small. Furniture business remains very small part of the mass affluent customers mind share. So this business is a longer haul then we assessed it to be that is why we are continuing to create categories, we created a lifestyle category that actually has done very well for us. Dental care did 33% volumes that you can see. So we are tweaking strategy to make sure that furniture will be as large as CD category in the next five, seven, ten years' time but for today it is not large enough so what else to be done and that is how life care and that is how dental care and few other segments have continued to emerge and we continue to build it out. And we had added these 450 clinics total 860 clinics is where we are operating in.

EMI Card a business that we are very excited by went live in on June 1. It is a 500000 Crores annual consumption pool versus the 170000 Crores consumption pool that we serve today focused on 6.1 million EMI card customers that we have. We had a technology fire buyers, analytical firepower and the ability to stimulate the customer. It has gone live in 15 cities 2400 stores already. We think this has a potential to be 2x of the consumer durable business in the next five-year horizon. As part of that process we have tied with Future Group across all their formats in the first I mean today is 26 in the last 50 days of having gone live in this business we are looking at around 20000 loans being booked. So clearly existing customer railroad we are adding categories to make sure we stimulate customer and make them play if this works well this could be a very, very large category and a segment for us.

Personal loan cross sell continues to do well. Credit performance remains strong. Urban gold loans we talked about it we did a test last year, launched the business full fledged in

December 2015. In our assessment this business will cross at 450-500 Crores investing in the business. In four-year horizon can this business be a half a million dollars plus business? The answer is yes. We are present in 767 locations with 432-odd branches. Will this business be present in all 432 branches in a three-year horizon? The answer is yes. As we build that out can this be a billion dollar asset business? The answer is also yes. So it is mapping the existing infrastructure, leveraging the infrastructure, leveraging the franchise and growing the business.

Salary personal loan growth was slower. If you recall in Q3 we had very strong growth. I articulated in Q4 that we have pulled back from the business based on our assessment from risk standpoint. Business grew 20%. We are making one big change apart from that year. We are going more and more direct. The contribution of direct of this business nine months ago was 35%-65%, 35% was direct, 65% was distributors. Now 55%-45%, 55% is now direct and 45% is distributor highly likely this will end the year at 75%-25%. So the economics of the business have changed, the rate of growth may have slowed down so and we think by Q3 rate of growth will also come back.

Salaried home loans base is very small. It continues to grow. We have 1800 of assets. We expect exiting March this year this business is likely to be at 250 Crores monthly volume business giving us a one and half to two billion dollars' assets view in this business by March 2018 and HST will go live given us the risk weight benefit and capital efficiency benefit so we will start to see that play out.

E-commerce, finally e-commerce consumer finance went live. Clearly as the pricing advantage if I could use the word or pricing advantage or unfair pricing advantage as it went away clearly they have to find propositions and they are working hard to do that. They Flipkart tied up with us as part of the process in the last 30 days we were there on two days out of their big day sales. For two days they gave us virtually front homepage visibility and we think this partnership will grow very rapidly as we take it a strategic level sometime in Q2 and Q3.

EMI cards crossed 6 million to 6.1 million. We have another 700,000 cards originated but not issued. So we know that in three months' time this franchise will be at 6.8 million. This franchise is now contributing to 50% of the volumes that come through. Rural lending strong growth base remains small, but very strong growth across. We launched 19 new markets. We are now in 109 branches actually that gone to 132 on July 1, we are at 132 branches and MSME rural given monsoon are getting delayed given those strategy was APMC led, we have pulled back, base is small but we pulled back as monsoon now comes around we will accelerate base is small not relevant.

Business loans, strong growth 62% growth, break through growth. We have broken the country. We think India is a continent. We have broken the business between prime growth and emerging and we are seeing that play out. We did that sometime taken out the last year is playing out.

Professional loans focused on doctors very good segment to work with but as I said we do not underwrite them, we pre-approve them. We know how many doctors India has using our analytical and prospect marketing capabilities we pre-approve them based on our analytical scorecard we have created and we go out and give them money. We have now launched behind it a RM model. So we now offer them professional loan behind it we give them home loan, loan against property and so on and so forth. We do not do machinery loans because that is largely under lender by supply credit.

Loans against property, growth is beginning to come back. It degrew 3% but I want you to remember December we walked away from distributors by second half you will start to see growth emerge both in self-employed home loans and in loan against property.

Loans against security very strong growth, Y-o-Y growth of 9%, ATMF 15%-16% corporate finance, big and light engineering base is small but the teams are in place largely hired from multinationals and they are going out and building a prudent business. Infrastructure, residual portfolio of 340 Crores will wind. The C business fully wind down by September – October and balance 306 Crores, out of 306 Crores 70 Crores is likely to be paid down in the current quarter leaving the residual only 220 Crores. Relationship management continues to grow. FD very strong response we launched corporate liabilities. 7% of the balance sheet now comes from retail and corporate liabilities already. Very strong response from leading corporate to place corporate deposits or fixed deposits with us giving us the confidence that this pool of liabilities could contribute 18% to 20% of our balance sheet in the next three to five-year horizon creating a disintermediation model on the liability side as well as we are doing in the asset side.

Portfolio, reasonably strong performance I talked about it earlier. Interest cost as I said 45% is now bank, money market is 48%, deposits is 7%, clearly first quarter could be broken up into two parts, April-May and June. Since June has the liquidity ease clearly bond market short-term C period have dropped by virtually 80 to 100 basis points. It is quite an example of what liquidity can do because interest rates have not changed just the changing liquidity scenario from a negative liquidity of 2 lakh Crores in system as it came down on a few days to surplus and is in corridor of 30000 to 40000 Crores of negative liquidity money markets have dropped. Short end money has dropped 80 to 100 basis points. So you will see if this continues you will see part of that benefit emerge in Q2 very clearly did not as I said because it was sometime in June that the transition happens.

That is really the quarter for you gone by. If I can draw your attention to slide #15 you would see one change that being done there. We have actually moved loan against property to a green and we have moved self-employed home loans to yellow. So clearly when we see last nine months of 0 to 1 forward flow in the loan against property business and given the transformation that we are going through in our assessment it is a green, and if you correlate this slide to a new addition to disclosure that we made which is 35 you will see the loan against property we have made it in green and self employed home loans it is yellow because there are a few five six chunky accounts because 99% of this portfolio is current. I want you to remember that. So we moved into NPA and as a result we made that yellow.

Otherwise overall a pretty steady quarter the portfolio of credit quality, which is on slide 33, 34, and 35, remained very steady. If monsoon turns out to be good pay commission money results in discretionary consumption spending hopefully should be a good year for the company.

I am open to question, myself and Dewang, Pankaj and Sandeep. Thank you Karan.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the lien of Adesh Mehta of Ambit Capital. Please go ahead.

Adesh Mehta: Good evening Sir. Congratulations on a great set of numbers. Sir just wanted to ask in terms of other income were there certain one-off this quarter because what I am seeing on a Y-o-Y basis the growth has been very strong here?

Sandeep Jain: In other income we have got closed to about 12-13 Crores coming on account of fee products that we have started selling now that came in. Penal and bad debt recovery have been very strong so that gave us 20-22 Crores of additional revenue and balance were BAU income growth that we have seen. And of course as the balance sheet keeps going on the borrowing side the treasury operation and cash management that we do also generates more revenue for us.

Rajeev Jain: We were now maintaining virtually 2000 Crores of cash and cash equivalence as per our liquidity pool. On the first point, over the last two years to elaborate a little as we get into more and more engagement products there are like flexi term loans, EMI cards are annual renewal fees of Rs.99, some of these pools of profit pool is start to get created. So you will see some of these pools start to grow as you move forward as the company in a very structured and steady manner.

- Adesh Mehta:** Sir other question regarding provisioning Sir, even adjusting for the additional provisioning of around 19 Crores which you did, provisioning cost have still been a tad higher at around 50% plus Sir what could be a reason for this? Are certain NPAs ageing in the bucket?
- Rajeev Jain:** So we are in the ninth year of our transformation so there is no ageing. What it means is that the consumer part of the balance sheet if you see the mix, if you go back two years ago to today the consumer part of the balance sheet was smaller. If you take press release you will see that ending Q1 the consumer balance sheet is in terms of mix 22000 Crores in the consumer balance sheet, the SME balance sheet is 20,000 Crores which is virtually out of 40,000 Crores it is 40% is SME and 60% is that, if you take FY2013 that number was reversed. And consumer business is more profitable and the way our provisioning model is defined flows through the P&L, tenures are shorter flows to the P&L faster. So the correlation, if you go to slide 16, FY 2014 9320 and 12000 which is 21300, when you turn this other way around you see exactly the mix change and that is really the direct correlation.
- Sandeep Jain:** If you would also notice that in the press release the consumer growth has been 47% on a Y-o-Y basis versus SME growth, which is only 20%, simultaneously rural is also growing at 223%.
- Adesh Mehta:** Right. So basically this incremental credit growth is coming from consumer book, which by nature is highly tradable?
- Rajeev Jain:** No it does not mean that. The point is it flows through because of shorter tenures and aggressive positioning stands that we have. Let me give an example, in CD business or consumer durable or mobile business 60 days pass due we provide 60%, so then it has to flow right whereas in a term loan that you give in SME business nothing comes to bare before 14 months. In modern age business nothing will come to bear before two years. So that, if the mix changes you would see average assets to AUM to loan loss rise. That is a point.
- Adesh Mehta:** Thank you very much Sir.
- Moderator:** Thank you. We have the next question from the line of Mr. Kunal Shah of Edelweiss. Please go ahead.
- Kunal Shah:** Congratulation Sir, great set of numbers. I wanted to understand broadly in terms of the overall expense side since we are into so many different products obviously the operating cost structure is slightly different for all of them, when we look at it in terms of the cost how much would actually be the incurring in terms of the sourcing cost and how much

would be so may be in terms of the cost given the scale up of the various product segments what is a kind of operating leverage which we could see? So how much would have been the investments? What would be the utilization levels of the current investments, which are made?

Rajeev Jain: On a lighter note here opex break up is only thing that we will not give. As such you ask for to give you. Provisioning you ask for we gave you. Now if you need the opex also we will also give you that.

Kunal Shah: No, Sir, we just want to, because there are like so many business segments?

Rajeev Jain: Now that was on a lighter note. Now on a more serious note, see fundamentally in general the consumer businesses are heavy on infrastructure, heavy on opex because the ticket prices are lower 9000 people sitting and managing 29000 stores across the country, larger fixed opex much more front-ended, SME ticket size being lower. But higher and higher degree of automation can fundamentally give you far greater operating leverage. SME business ticket sizes are bigger, costs per accounts are lower but operating leverage opportunities are also lower. Commercial less talked of is better I mean because they can be run by few RM. Now we continue to invest in both consumer and SME to automate, automate, automate as a company because not just from operating leverage standpoint, it is also from the fact that we cannot manage the scale otherwise. We had to automate we have to put very deep analytical infrastructure behind it so that we can cross sell. As we do more and more operating leverage will emerge. If today, we stop to invest in new businesses of more operating greater operating leverage will emerge. This P&L takes into account the five lines of businesses that we launched last year and the two lines of business that we launch this year all burning cash. As small they may be but burn is burn. Now so it is accounted for that. I have said many times that we are very comfortable. My long term view would be 30% to 40% cost to income ratio is what I feel I would think at 38% I would be very happy because the kind of kick up to kicker that P&L that would be enormous. We came down to 42%, last year full year was 43%, Y-o-Y it is 46% down to 42%. You are likely to see your PAT 41%-42% on a full year basis. As I said we are investing very deep. Just to give you example, we did 7 million loans last year this quarter we have done 2.5 million loans. We now think in a five-year horizon 20 million loans will happen. Is our technology platform "geared" to do 20 million loans? My answer is no. So we will right now put together 50-member team we are reworking the entire technology platform. Now that comes with cost that really, R-EMI, Retail EMI card how do a Rs.25000 loan where we knew how to make money, how do they make money Rs.6000? Now it took us 15 minutes. We burnt 20 Crores last year from a technology and team standpoint. So a number for you 38% to 40% in a medium-term horizon is where we will get to.

- Kunal Shah:** And largely in terms of sourcing are we seeing too much of a competition bid in terms of like CDs when we look at it which was a more kind of a monopolistic or say oligopolistic market now more and more players are entering into it even in case of LAPs or DSAs I think the commissioning levels are going up across so sourcing are we seeing any?
- Rajeev Jain:** Clearly will competitive activity intensify? The answer is yes. We have been through a benign retail bank competitor environment now for last six seven years. In the last one and half years clearly has the activity picked up? Yes. But there are opportunistic lenders and there are serious lenders. We do not worry about serious lenders because they are also having to there make money we are there to make money. It is the opportunistic lenders who disrupt they loose and the market place looses that we worry about. So whole lot of players has emerged. I am not talking about the consumer durable; I am talking broader retail financial services. Has competitive activity intensified? The answer is yes across all lines of businesses. Has it so far resulted in us getting impacted? The answer is No, we could have continued to grow even LAP but growth is one part, delivering a sustainable profitable outcome is another part. We could grow but that was giving 11.5% ROE. We do not want to do business at 11.5% ROE. We want to do business between 15% and 16% ROE, which was not coming through doing with distributor and that is how went direct. So more and more you will see as the company going direct to consumer, which will give you operating leverage, which will create a cocoon around us, that we do not care what is happening in the competitive landscape. And we are accelerating the pace of that. It is very difficult thing to do but once done is done for good that is the direction taking as a company.
- Kunal Shah:** The final question in terms of the business loans so how are we seeing this particular segment and what is this entire break to growth strategy which is there in this segment?
- Rajeev Jain:** Which business it is Kunal?
- Kunal Shah:** Business Loan?
- Rajeev Jain:** Business loan we as I said we are looking at India not as a country, we are looking at India is a continent. We do this business in 250 cities or end town. Now top 15 markets are very different 15 to 50 are very different 50 to 200 are very different, 50 to 150 are very different 150 and beyond are very different. We have now broken up the country into these four blocks, a prime emerging growth and new growth and it means the different credit model, it needs a different organization model to grow. We are not just doing it there. We are doing it whichever businesses is achieving scale we are peeling the onion as we gain economic size in each business we are peeling the onions putting dedicated management teams behind it

giving them the empowerment and growing the business. So you will see you will hear about this in many more of our businesses as we continue to move forward from here.

Kunal Shah: This could be like more kind of a Sir taking away the market share I think the growth which is there is almost like 60-odd% in the business loan portfolio, which is quite huge, so what is the nature of lending so this is something like say what PSU banks used to do and this is like taking...?

Rajeev Jain: So fundamentally it is a business loan given to SMEs, which is unsecured in nature given for a period of 24 average tenure of this book is 18 to 24 months. Now this is fundamentally a hook with which we acquire SMEs because it comes at a higher price, it needs risk management skills to underwrite a customer for let say 14 lakhs or 15 lakhs is average ticket size and manage him through then analytically use the information that he has given you plus bureau information plus model you have created and cross sell to him various other loans. So that is really what the business model is, easy to speak difficult to replicate.

Kunal Shah: In terms of sourcing this is in-house or this is through DSA?

Rajeev Jain: After fifty cities there are no DSAs available, so up to 50 cities it is by DSA even in that 50 cities 45% of this business is direct balance 55 is DSA.

Kunal Shah: Concentration would be in top 50 cities?

Rajeev Jain: No this is highly distributive within 250 cities. This is the second most distributor business we have after consumer durable actually.

Kunal Shah: Thank you so much.

Moderator: The next question is from the line of Mr. Roshan Chutkey of ICICI Prudential. Please go ahead.

Roshan Chutkey: Thanks for taking my question. If I look at your new to Bajaj Finance customers its about 11 lakh customers that you have and if I look at your cross sell franchise about 7.5 lakh additional customers have been added now how do, I understand how have you filtered out the 3.5 lakh customers on what basis?

Rajeev Jain: Yes, it is based on so you may want an EMI card you may not choose to give an EMI card so it is not that every customer takes and it is not that we give it to every customer. We may choose to give a loan not necessarily they may choose to give you an EMI card, giving an open line is a very different conversation versus giving a EMI card to the customer. If the client bounces so this card is sent after two months, to some after one month, to some after

two months, to some after three months. If you default card is not sent to you. So there are multiple levels of one you may not want, two we may not want to give three if you default you will not get it. I mean these are the three blocks at least, which will be big blocks that I foresee that is really how the waterfall would emerge.

Roshan Chutkey: So I think you did not get my question. I am talking about the waterfall in slide #14, total franchise has now moved to

Rajeev Jain: I also missed one more block we do not give it to two wheeler customer that itself is 150000. Yes, he is saying we acquired 1.1 million customers we have only 700,000 EMI card.

Roshan Chutkey: I am not talking off EMI cards. I am talking off the increasing cross sell franchise, cross sell franchise has increased from 8.5 to 9.24 which is about 7.5 lakh customers quarter-on-quarter, the cross sell franchise is increased by 7.5 lakh customers whereas our new to Bajaj customers are 11 lakh customers how do I understand the difference between this number and the other 11 lakhs?

Rajeev Jain: I have got it. Our business remains seasonal. If you see last year also Roshan Q1 of 786634 in general first quarter and third quarter is a much higher business and much higher new to Bajaj customers. Second and fourth quarter I assume you are referring to just absolute number right?

Roshan Chutkey: I am not referring to the absolute number Sir I understand that business is seasonally. I am saying, how did you just filter out, out of this 11 lakh customers?

Pankaj Thadani: Yes, you were asking that what is the walk from 11.5 to 7.5 lakh. The walk is basically if you see the filtration of June 2016 franchise from 17 million total consumers in our franchise 9.24 only is prime credit, similarly for last quarter 11 lakh customers which we have acquired, the addition to prime credit which is cross sell franchise is only 7.5 lakhs. Main waterfall in these are there are two-wheeler customer is the largest waterfall because they are in rural far flung places, we believe that consumer wallet to cross sell is limited there are certain customers which might have inadequate credit score in credit bureau that is why they gets filtered and it is one of the waterfalls from 11.5 to 7.5 and such are the cases that it falls from 11 lakhs to 7.5 lakhs.

Roshan Chutkey: The other question I have is if I look at your slide #16 personal loans cross sell and salaried personal loans the ticket size is very different. What is a reason why, how do you explain the disparity in ticket size?

- Rajeev Jain:** So there are MAT affluent to upper MAT affluent to affluent to super affluent customers sitting in personal loan cross sell. In salaries personal loan we do not deal with the clients. Our average gross annual income is Rs.10 lakhs in top 15 cities after that it is 6 lakhs and after 25 it is...
- Roshan Chutkey:** Salaried personal loans have a higher ticket size of five Lakh but a personal loan cross sell has a ticket size of 1.41?
- Rajeev Jain:** That is what I am saying. So there are three businesses in personal loan cross sell what we call SCS, MTS, and HTS. There are three different segments sitting in personal loan cross sell as one part. In Sal PL it is just one customer, homogenous customer segmentation sitting so if you took the HTS business in the personal loan cross sell that is the way we look at this business we internally we look at it, they will be apple for apple.
- Roshan Chutkey:** But what does HTS stands Sir?
- Rajeev Jain:** HTS is high ticket, medium ticket, low ticket that really how it is.
- Roshan Chutkey:** But in terms of customer profile, who is that HTS?
- Rajeev Jain:** In personal loan cross sell Rs.700000 to one million annual income which is the target segment in fair salaried personal loan, which our average through the door every month is one million rupees' gross annual income, that is really the customers we focus on. You will also see this correlate in credit matrix. Salaried personal loan is 99.5% current portfolio; you will see it if you go possibly down to credit whereas you will see that the personal loan cross sell portfolio is only 97% currently. This is the point. You see this 250 basis point differential emerges because the segments are different but if we cut the HTS to Sal PL likely to look very similar.
- Roshan Chutkey:** Just one last question, now your ticket size for LAP 1.5 Crores it is a way too high what is the kind of collateral that you have against this?
- Rajeev Jain:** The horizon?
- Roshan Chutkey:** Sir at least 2x is collateral amount, right 3 Crores or thereabouts?
- Rajeev Jain:** 50%-55% is the LTV.
- Roshan Chutkey:** Because the ticket size is way too large when compared to the competition as well so do you operate in a very niche segment? How do I understand this? If I divide the AUM by the

ticket size the number of customers are also very low about 5000 customers is that you all have here?

Rajeev Jain: Yes, so Roshan we have done this business now for 8 years. Our average ticket size until a year ago used to be 2.3 Crores. We have dropped it to one and half that is really where we have got into. There are two pieces in this business that is sitting there. One is the lease rental discounting to HNIs and another is a retail LAP. Retail LAP average ticket would be 90 lakhs to 1 Crores blended basis it comes at between 1.3 and 1.5 Crores that is really how it is.

Roshan Chutkey: Thank you so much. That is all from my side.

Moderator: Thank you. We have the next question from the line of Shwetha Daptadar of B&K Securities. Please go ahead.

Shweta Daptadar: Good evening Sir. Congratulations on impressive set of numbers. Sir just couple of questions just taking cue from the previous question the average ticket size of the mortgage portfolio has declined sequentially, is that also the outcome of direct to customer model execution?

Rajeev Jain: Yes, very much absolutely. It is part of the design.

Shweta Daptadar: So Sir going forward do we see such declining trends?

Rajeev Jain: Yes, you are likely to see. It will settle in a corridor of around 90 to 100 lakhs.

Shweta Daptadar: Sir secondly you mentioned in your opening remarks the two-wheeler and the three-wheeler segment have started showing growth and improvement. We also faced delinquencies for quite sometime now, the GNP is however being still looking higher on sequential basis so now that the portfolio is growing will the GNPs will soon peak out?

Rajeev Jain: You are referring to 150 to 120?

Shweta Daptadar: I am referring to 120.

Rajeev Jain: One thing does not follow sequential. In general, in especially in let me make a point in secured businesses which are auto driven Q4 is normally the strongest quarter so you would see it tapering off in Q1 improves marginally in Q2 significantly improves in Q4. So if I say it is a standard operating procedure. So one is do not look at it on a sequential basis. If you go to portfolio composition on slide #32, you will see that it has remained very steady. If you see June 15 88.5 were current now 89.34 is percentage is current part of it is caused by

growth that is correct and one portfolio remains reasonably steady, it is priced for I want to qualify, this is the only portfolio in our book which does not behave the balance of the book because it is focused and MAT and below MAT customer. If you, for a moment if you see it contributes to 8% of our balance sheet but 30% of our delinquency of our gross NPA, because it is nothing wrong it is just we are dealing with our segment which behaves that way its priced that way.

Shweta Daptadar: So you mean thereby these are basically technical NPAs?

Rajeev Jain: Yes, on a sequential basis technical. I do not want to call technical NPAs. It is just that the correction performance improves it after first quarter improves in 2nd quarter and again peaks out in 4th quarter.

Shweta Daptadar: So but this is the kind of range or number we will be getting to look at even ahead?

Rajeev Jain: Yes, that is correct.

Shweta Daptadar: That is, it Sir. Thank you.

Moderator: Thank you. We have the next question from the line of Ashish Sharma of Enam Asset Management Company. Please go ahead.

Ashish Sharma: Just a quick question on Kunal's question you mentioned that the cost to income ratio you have to see the business but just to get back to the numbers you mentioned we are looking at a costing pressure of 35% to 40% you said?

Rajeev Jain: 38% to 40%.

Ashish Sharma: Second question is on the LAP Sir, you had mentioned that you are going direct to customers from Q1 onwards how has been the transition like and will you see that transition over and the growth sort of resuming going forward?

Rajeev Jain: Yes, by Q3 you will see with second half we think we are much more confident. It is tremendous amount of hard work the team has done. We are quite happy with the response. As you can see in loan against property business for the quarter that went by the acquisition growth and 80% of it is direct because as I said there is NRE that gets in there, in the quarter gone by and that acquisition was 130-odd Crores which is 350 Crores per month out of that 300 Crores is direct growth, 275-280 Crores per month. We used to do 430 to 450 Crores per month. So as we "refine" the model, which the management teams have added on a week on week basis it is a very difficult thing to do. We think we will be back on a strong growth mode. We also estimate I must make a point, we estimate that competition

will pull back because we think we are ahead of the curve on the way you have identified the LAP structural issues in the LAP business if that happens and if we have clean books we should be able to grow much faster. Now that is our hypothesis we will see even if there is second part of hypothesis does not play out the first part of hypothesis we would mean we will start to get into a 20%-25% growth from second half of the year.

Ashish Sharma: The green you have put in for LAP segment it is not because you have to move to direct, you have seen the environment sort of improved?

Rajeev Jain: So two things, environment in the sense, environment real estate prices have not moved so that should not make it green. What we see is zero to one flow, which is current to non-current collection efficiencies, the direct model that we have created and as the result the economic model that we are now delivering. All these three put together make it green, the competitive scan as softened not to where it should be the pricing craziness remains but otherwise overall competitive activity is little less threatening than it was in 2015-2016. It will come because people are seeing outcomes of little bit of irrational credit and irrational pricing.

Ashish Sharma: Thank you.

Moderator: Thank you. The next question is from the line of Sourabh Kumar of JP Morgan. Please go ahead.

Sourabh Kumar: Congratulations on your results. Sir just on your cost to income I am not sure I quite understood what was this sharp improvement during this quarter?

Rajeev Jain: One in the operating leverage, two you would also see the dealer commission line growing only 20% versus the 40% are balance sheet growth. So the whole conversation that you are doing on direct at the end of day it has to result in a number. This is the number that the dealer commission line is 109 Crores versus 89 Crores so that growth is a 20% growth versus a 22%-23% growth versus 40% balance sheet growth or a 48% custom acquisition growth so the numbers start to add up to the whole direct to customer conversation that you are doing and that is one part of it. There are many. Second operating leverage clearly momentum was far stronger so you will start to see it play out. So that is the point.

Sourabh Kumar: Okay and on this EMI card how much will this contribute to your overall book now in a consumer side?

Rajeev Jain: When you say EMI card what you mean, I mean?

Sourabh Kumar: Disbursements on the EMI card?

Rajeev Jain: Yes, which is on going 4 million loans.

Sourabh Kumar: As a percentage of the book how much would this be?

Pankaj Thadani: Of retail book it will be closed to 55%.

Rajeev Jain: Existing customer repurchasing using an EMI card or just giving his mobile number at the point of sale, some have EMI card if you do not have prior to five years ago customers do not have so existing customer is between 55% and 58% now.

Sourabh Kumar: And presumably at this 55% you obviously make a very high ROA?

Rajeev Jain: Loan losses 1/3rd of the new to Bajaj customer.

Sourabh Kumar: Plus, the opex will be?

Rajeev Jain: Absolutely opex is structurally lower. Loan loss is lower opex is lower.

Sourabh Kumar: So we can, since this is now 55% can we say that like when you acquire a customer you actually do not make money for first time you give him a loan?

Rajeev Jain: No that would not be correct we make but make much lesser. So clearly the customer NPV as he purchases more multiply.

Sourabh Kumar: Sir just on your this AUM breakup which you have given so if personal loans and salaried business loans will these be like the highest ROA product within your overall consumer bucket?

Rajeev Jain: That I can say yes, I can say no. Consumer business in general is what I would break it because let us keep it. Again let us do a conversation of customer NPV. New to Bajaj, EMI card then I sell multiple products then I sell personal loans. Now that is it customer NPV conversation. It would not be appropriate to break it. If I took a blend of all of it disproportionately profitable would that answer be yes? The answer is yes. But if I do not cross sell it each stage then it will be mediocre arguing. Outcome for a customer or a NPV of the client, so it may not be just appropriate to look at it by line you will have to look at the customer level.

Sourabh Kumar: Sir where I am coming from is basically we have seen banks get very competitive in these salaried personal loans?

- Rajeev Jain:** Of course, our building office competitors have put 11.5% Rs.999 fee. We agree and we do it at 14.5% but we rather thing we will not give Mr. Bajaj's money than to give money of personal loans at 11.5%.
- Sourabh Kumar:** I was just wondering is there any risk you see on these IRRs?
- Rajeev Jain:** Okay, so two things I think its an important conversation. Now the lazy banking says do business in 15 cities and I go back to a conversation on India as a continent and not as a country. We are now doing salary personal loans with business is 70 cities, three years ago we were doing in 25 cities, five year ago, we are doing in 15 cities. The margins are better as you go down, risk is not higher let me make that point, risk is actually lower but the work is much harder. Building different credit model is harder. Affluent customer definition is little different versus top ten cities ten to twenty-five cities and so on and so forth. So its more nuance approach to, now you put it together you can make more money there you can make little less money here and if you change the mix and you can do less business through distributors you can do more business in tier II. You put it all together you can make decent money. You only do lazy banking business in 15 cities only through its distributors you could you struggled to make even 1.5% ROA let me make a point to you, even with 99.5% currently.
- Sourabh Kumar:** That is very clear Sir. Just one last question on this slide #36 you have one yellow and one red not I am guessing this yellow is against LAP am not sure what this red is against?
- Rajeev Jain:** No, not LAP its self-employed home loans as you see the number for the quarter is actually gone to 2.5%. As I mentioned earlier the result of some chunky accounts in northern market moving flowing into NPA and the red is infrastructure finance which is less than 300 Crores a book of which 54 Crores is sitting in it is a standard account but sitting in provision 54 Crores in it.
- Sourabh Kumar:** Just have on just last thing on this coverage, so you provide 96% coverage on these 88% to 96% on the salary?
- Rajeev Jain:** Actually we have to wait for one more month, let us say if I stop doing business and I did one more month of because it is a snapshot of June 30. On July 31 it will be fully provided for you. As I mentioned earlier somebody is asking question of how come loan losses are higher? As the consumer book, since the book mix changed and we provide very early because a risk driven business rather than a collateral driven business we provide virtually at 90 days pass due full 100%. So that is really how the numbers so either it has to flow through the PNL or it represents otherwise it does not in our assessment represent the truth state of the balance sheet of the company.

- Sourabh Kumar:** But in just in your experience what will be the loss given default on this. Is it close to 100%?
- Rajeev Jain:** We general look at loss to sales. We do not repossess any which ways.
- Sourabh Kumar:** This is clear. Thank you.
- Moderator:** Thank you. The next question is from the line of Sunil T of Credit Suisse. Please go ahead.
- Sunil T:** Congrats on very good numbers. I have a few questions. Of the one million odd, new to Bajaj customers that you got during the quarter or a three to three and half million customers that you got over the last year what is the hit rate that you see on the bureaus?
- Rajeev Jain:** We are in, as I mentioned we are today in 275 cities, the bureaus structurally break, as you go beyond 25 cities. 15 cities it is different, 15 to 50 it is different after 50 it is different. Up to 15 cities the number would be 70% bureau hit, 70% to 75%. That number drops by 10% points and when it goes into rural business that number gets to 40%. So in a way you actually break it by 10% points, 75% would be a good starting point I am saying 2%-3% here and there now this is not due hit so that I qualify, so it is bureau 750. So if you have a bureau of 700 we would decline you. We are okay with you being a new to credit but we are not okay with you to be a poor bureau. So there are three stages, new to credit, new to 0 to 750 bureaus and 750 and above. 0 to 750 to us is bad, we will decline you at binary level. New to bank or new to credit we are okay based on a certain set of demographic and typographic data that we gather from the application. Bureau 750 and above is what we classify as and there is a structural drop as you move from top 15 to 50, 50 and above and clearly 150 to 200 and above it goes down all the way to 40%. But let me make a point 40% as an example bureau 750 demonstrates that what I keep saying we deal with mass affluent clients. 750 bureau in case as an example tells you why we are continuing to deliver a strong steady rural lending business as a company because the focus will remain mass affluent.
- Sunil T:** Yes, so my question was actually you know how many of these 3.5 million customers over the last one year new to Bajaj customers would actually be new to the bureau itself?
- Pankaj Thadani:** Around 45% will be new to bureau.
- Rajeev Jain:** We are creating bureau rail load in India, which is there.

- Sunil T:** The second question is if I look at the management discussions section and I look at the slide #20 so in the consumer durable piece you have mentioned something about retailer finance business. Is this part of the AUM in consumer durables or is it outside of it?
- Rajeev Jain:** Yes, the AUM will not be 1600 Crores this is disbursements. First let me just quantify.
- Sunil T:** Okay so will it be part of the disbursements of about 5000 Crores?
- Rajeev Jain:** So 1655 book contribution AUM will only be 200 Crores. So that is point one. This moves on a seven-day basis, on an average seven day. It is a fully automated process where we set up lines or a retailer based on agreement with him we make the payment to LG, Samsung or Sony. He gets the produce, products and we finance the product. So this is more of a ring fencing and helping manufacturer and retailer sell bound. So this helps us to ring fence the model.
- Sunil T:** But I am asking since it is insured it in consumer durables is it 1655 a part of 5000 Crores?
- Sandeep Jain:** 250, is part of 5000 Crores and not 1650, 1650 is disbursement when you say 5000 Crores you are talking about assets right?
- Sunil T:** No I am talking about deployments of 5020 Crores that is on slide #15?
- Rajeev Jain:** It does not include. Just to connect the dot 27500 is the average ticket size, 17.75 lakhs 4900 Crores is what it comes to.
- Sunil T:** I am sorry what this 4900 Crores?
- Rajeev Jain:** Loan, 17 lakhs 75000 accounts just to 4900 Crores, to connect the dots fully.
- Sunil T:** If I look at, you mentioned about the changing mix, which is kind of driving a change in opex credit cost etc., and also the margins how do you see the share of consumer and SME over the next three years in terms of the strategy?
- Rajeev Jain:** So our view is because LAP and FCHL we are transforming the business. The mix has changed. Our three to five-year view remains, I would say one to three-year view remains 35% consumer balance sheet. It will become more and more like services business, churns very rapidly highly automated more categories, same customers, higher fees. It is more this service business it will become. The SME business we will generate balance sheet, which is 45% of the balance sheet, is what we see, SME to me today is as we share in the as you done in the press release virtually that number was it has turned the other way around 22000 Crores is consumer, SME was 20 so it is 45%-55% actually we see in a one to three year

horizon to be 35, 45, 13 and 7, 13% to 50% commercial and 5% to 7% rural, that is the corridor we want to play and we think that the sweet spot gives us a 3% ROA and a 20% ROE.

Sunil T: Okay so was this also could mean that your NIM could come down but get offset by probably lower opex and low credit cost?

Rajeev Jain: Yes.

Sunil T: Thank you. Thank you very much.

Moderator: The next question is from the line of Mr. Sabish Gupta of Trivantage Capital. Please go ahead.

Sabish Gupta: Thank you Sir for taking my question and congratulation on a very good set of results. My first question is on your LAP where you commented that incase you would not have shifted from DSA to own sourcing your ROEs would have been 11% to 12% as opposed to 15% - 16% so if you can throw a bit of more color on this point?

Rajeev Jain: So margin pricing came down, distributor commission went up, loan losses increased. And as a result of intense competition more through the door approval, sanction which is were to cost this spend versus conversion went down. All these four we had to fix by doing the following. Go direct, identify who I want to go after preapprove him based on the information that I have, go to him give him lower price, he will do because he is my customer I will cross sell higher, he is a close blue customer so I can charge him a little higher price. Cost of acquiring goes down because I have done all the prework, loan loss is one third that of the distributor business. All of it gets me back from 11.5% to 15% to 15.5% that is what it is.

Sabish Gupta: Sir do you see this negative changes in the environment as temporary for this product or do you think that they will stay as it?

Rajeev Jain: I think it is a strategic asset class. It is an easy to build asset class, tough to make money asset class, because this is the environment that is to sustain because this portfolio takes 24 to 30 months to play out on the vintage curve, people may not even realize for two and half years so what I call the donning of the reality would take longer. Now that for somebody who looks at P&L every month like us would say let us not do it, so I would say to you that if you do not have a right business model it would be tough to make money. Asset building our business is very easy thing to do.

Sabish Gupta: Sir my second question as you are increasing the share of consumer loans which many of the products are of even lower tenure as we go forward towards increasing the share of consumer loan, would we see a lot of volatility in the overall book because of prepayments or because of the shorter tenure itself?

Rajeev Jain: Customer in consumer business do not believe it because the tenure is too short. It is more that services, services business as I mentioned earlier use the service, pay the fees, use the service pay the fees. Volatility I mean you know those who are tracking us for long would know never look at it sequentially because the first quarter and the third quarter as a company is stronger because consumption is stronger in Q1 and Q3. Q2 and Q4 are seasonally weaker than Q1 and Q3, so we are not anyway a sequential company. I would like to reinforce and repeat it so that those who are following us now build their models that way. Q1 and Q3 is stronger Q2 Q4 weaker. So please look at us year-on-year rather than sequentially. Volatility as the balance sheet expands and grows volatility is likely to go down rather than go up. So in general, I mean so that is very hard to play off because one business may not play out the second business will play out, the third business may not play out the fourth business may play out, net-net if we run an efficient company we should be able to deliver structurally for the shareholders.

Sabish Gupta: Sir in your prepayment rates have you seen any trends in terms of your prepayment in either consumer or SME book?

Rajeev Jain: Just two points one point I want to make, we as the company never used to charge prepayments. As you go out away from distributors we still continue to have that view. In Q3 and Q4 four months' time we saw 1700 Crores of out of 10000 Crores a book washed away as we walked away from distributors. We had to enforce prepayment on our clients. Now it was doing multiple things increasing leverage, churning the book and it was helping only the distributor. We did not want to do it because we felt a client who is paying from own sources should be able to pay it, but so we still allow client who is paying from own sources pay but in general we have enforced now prepayments. Some of the banks are out there saying because we publish our credit quality we never used to have prepayment the rate banks started to say we give 11.5%, do personal loan BT and anyway client is not being forced to pay any excess charges. We have to introduce prepayment charges because of what I would call an attack on us. So you would see prepayment go down. It will settle down structurally at the lower rate than where we were.

Sabish Gupta: Thanks a lot Sir.

Moderator: That was the last question. As there are no further questions I would like to hand the line over to Mr. Karan Singh.



Bajaj Finance Limited
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Karan Singh: On behalf of JM Financial I would like to thank Mr. Rajeev Jain and the senior management team of Bajaj Finance and all the participants who joining us on the call today. Thank you and good-bye!

Rajeev Jain: Thank you Karan. Thank you all. Bye.

Moderator: Thank you for joining us ladies and gentlemen. You may now disconnect your lines.