



**“Bajaj Finance  
Q1 FY2020 Results Conference Call”**

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**Moderator:** Ladies and gentlemen, good day and welcome to the Bajaj Finance Q1 FY2020 Results Conference call hosted by JM Financial Institutional Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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 Singh from JM Financial Institutional Securities. Thank you and over to you Sir!

**Karan Singh:** Thank you. Good morning everybody and welcome to Bajaj Finance’s earnings call to discuss the Q1 FY2020 results. To discuss the results, we have on the call Mr. Rajeev Jain, Managing Director, Mr. Sandeep Jain, CFO, Mr. Atul Jain, CEO, Bajaj Housing Finance, Mr. Anup Saha, President (Consumer Business), Mr. Deepak Bagati, President (SME & Collections) and Mr. Ashish Panchal, President (Rural, Business, Insurance and Liabilities). May I request Mr. Rajeev Jain to take us through the financial highlights after which you can open the floor for Q&A session? Over to you Sir!

**Rajeev Jain:** Thank you Karan. Good morning to all of you. I will be referring to the investor presentation which was uploaded yesterday on investor section of our website. We have added two new slides, page number four and five, which essentially covers the executive summary of the quarter that went by. I am going to read some of the important points there to give you texture and then we will be open to Q&A. Overall, I would open with saying that as a company we continued to remain focused on growth, profitability and sustainability in Q1 FY2020 as well. Overall AUM grew by 41% to tad below Rs.1,29,000 Crores. Adjusted for IPO financing book of Rs. 2,500 Crores that sits there, core growth was 38% and balance sheet came in at Rs.1,26,340 Crores. AUM growth was quite granular in nature, which has really been the way we have been building business over the last 12 years. Even in the so-called slowing businesses, the consumer B2B business, which is discretionary spending business, grew by 24%, B2C grew 48%, rural B2B, which is discretionary again, grew 48%, B2C grew 65%, mortgages grew 45% and AF grew 65%. Commercial business grew overall 18%.

New customer acquisition momentum continues to remain very strong. We added 2.5 million customers in Q1 that is a pretty strong growth on a year-on-year basis, total franchise came in at 37 million customers and cross-sell franchise stood at 22 million customers. The strategy remains simple, continue to just grow wallet share of our clients for these 22 million customers. Existing customer contribution went up to 66% from 63%. Company on a steady basis continued to add new locations, we added 65 locations in Q1 to take the count to tad below 1900. We will probably get to 2000 locations by March 2020. Cost of funds remained steady. Liquidity position remained very comfortable, incremental

borrowings given rally in G-SEC, surplus liquidity in the system are clearly coming in both the short term and the long term, and are both coming at a much lower cost. Liquidity position was very comfortable. We are sitting on close to Rs.6500 Crores of liquidity buffer and remain very comfortably placed. Since the sectoral crisis started, company has added close to Rs.32000 Crores - Rs.33000 Crores of additional balance sheet in the last three quarters, just as a separate point. We will continue to diversify our liability through ECB. We are all set, we will probably raise anywhere between 600 million to 750 million in the current calendar year. FD continues to grow, crossed Rs.15000 Crores. Overall consolidated balance sheet share was 13.5%, standalone balance sheet share was at 16% and we are continuing to invest deeply in growing retail fixed deposit channels to continue diversification of our liability profile.

On fee revenue pool, that is a regular question you ask, we have now started to cover that in presentation. Overall fee revenue pool on a year-on-year basis grew by 65%. Loan losses came in at 69% Y-o-Y growth. As I mentioned here last year Q1 was very, very strong, loan losses grew only 7%, Q2 grew 43%, Q3 grew 69%, Q4 was 80% and Q1 has come in at 69%. Opex to NIM has continued to show progress, metric came in at 35% versus 37% last year. The number that was 37% last year went to 36% then went to 35% then remained at 35% and now came in at 35% again.

Gross NPA and net NPA, sequentially there is just 5, 6 basis points movement. Gross NPA and net NPA went up by just a basis point so one could argue it did not move at all. PAT came in very strongly at 43% growth, at just a tad below Rs.1200 Crores. Return on equity was ever high, came in at 23.5% as the overhang of the equity also went away, the return on equity has moved better. Return on assets remained very steady at 4%.

Capital adequacy remains strong, Tier-1 is at 15.5%, consolidated leverage is now 6.6x in general. As we have guided in the past, we have raised capital between 6.6x to 6.8x. That has really been the track record over the last 3 raises that we have done over the last eight years, so we may raise go out and raise capital subject to board and shareholders' approval. Bajaj Housing Finance continues to grow very well. The results are in public domain, Q1 profit came in at Rs.70 Crores. Overall balance sheet growth on an overall, mortgages was 45% given the year-on-year comparison for BHFL is not relevant because the company started its operations only in January 2017. Bajaj Financial Securities has received all requisite approvals and has just commenced business. We are quite excited about growing this business over the next three to five year horizon. That largely in general covers the Q1. Given that I would just now take you to panel 41, given we are a risk business, we pride ourselves on saying and doing that. So, let me just take two minutes to cover that from a management assurance standpoint. We have actually moved two of the portfolios, which essentially contribute to 11% of a book from green to yellow from a management assurance

standpoint not from a portfolio movement standpoint that much. On a year-on-year basis, two wheeler, three wheeler is better off; however, given the sequential movement on one hand and two given our higher share in, Bajaj auto domestic sales, as management prudence, we have, from a disclosure standpoint, from a guidance standpoint and from management assurance standpoint have marked it as yellow. Digital products is yellow as we are seeing movement in the portfolio. We have been taking action since, last four, five months, but have taken harder action in the last two months and it is a very short term portfolio. In general, if you were to actually look at this portfolio and we have been publishing this data for the last six, seven years that we have done this business, this business actually was much worse off earlier. We got full handle on the business, full control on the business but in the last two months we have seen some degree of movement, it is 3% of our portfolio and given the short term nature in general washes off in a quarter or so, but just from a prudence standpoint and from a communication standpoint, I thought it would be prudent that we will communicate the same with you.

The red is loan against property, which essentially on a non-IL&FS remained very steady, there is progress that we are seeing even on our IL&FS exposure. We have begun to see premises starting to sell. We have received moneys into our escrow account to the tune of Rs.18 odd Crores in the last 20 days. IL&FS has received all requisite approvals and has gone out and put the building blocks on sale, which is really where our exposure is, so we are quite optimistic and given the momentum that we are seeing in the last 30 days we are quite optimistic that subject to legal issues being behind for the company, we may just be able to get out unscathed. Our total provision on IL&FS account at this point of time stands at 26%, so these are really the highlights on the quarter. On panel 43 be we added a guidance, Commercial lending portfolios have only one NPA account that is published and it is 65% provided for. Securities lending is 100% current, despite the volatile environment that we have seen since IL&FS crisis, we are in a very good shape.

As a major point on what we have written there, I have said that we are data dependent, if we see any of our portfolios deteriorate, the right thing to do in our business from early warning signal standpoint is to act, what is done is done, but you can reduce your exposures if you were to act in time, so that is one part.

Second as I mentioned to a few people when I read the newspapers, when I watch the television, it all looks gloomy and doomy and like any business manager we are impacted by it. When we look at the micro it does not show up that way, but when we hear the macro it shows up that way and given that we are building the business, with next 5-to 10-year view, as a conservative company, the right thing to do from a prudence standpoint is to go out and prune the bottom 10%, 15% of the business. That is really what we have done, if you take an example in the rural business, the gross NPA and net NPA are structurally

lower than urban businesses, so I could argue there is no reason for us to act. However, as a conservative company, as a company building a business with the long-term view, as a company which if the gloom and doom is right we could get into trouble, you go out and act in time. So that is really the context of the point number three (half part), point number four full part, the only point here in AF because on a sequential basis we have seen movements, we have made the decision. That is really the context we would like to continue to provide, which we have done over the last 8, 10 years. Complete disclosure to all investors in the way we see the business. We want you to read the business that way. We are doing it for disclosure and for insuring that our transparency is as good as it is for anybody, read it that way is all I would just say. That is really from me and I am happy to take questions between and my colleagues.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Pranav Tendulkar from Rare Enterprises.

**Pranav Tendulkar:** Thanks a lot. Congratulations on a great set of numbers in a tough environment. I just wanted to ask, what is the number of people that are employed in the origination side of the business and number of people that are employed on the collection side because I frankly think that this proportion might change because the time of origination is 15 to 20 minutes, but time of collection can be anywhere between one month, if it is not paying on time that is on auto mode? Thanks a lot.

**Rajeev Jain:** Out of 20000 people, Approximately 4500 work in collections across the country, you have to remember one thing that only 8%, 9% default, there will always be more people in business because one is to do work on 8% and another is to work on 100% that is point number one. Point number two as I said to be specific it is 4500 people. Point number three, we do track as a company how many days we take to collect from the clients who default, which is 8%, 9%. In general, if i take last five, six quarter view, once the demonetisation washed away in June 2017 that number has remained steady between 15 and 16 days we used to collect on an average every month, it is an internal metric we track every month just to give you texture. Third order point, we fundamentally have very rigorous capacity across collections, whether it is done through call centers or through physical or through agencies, it is sophisticated rigorously disciplined and followed through. You get that right with underlying metric being detailed into it unless and until demonetization like event happens. Fourth order point, five years ago only 5% of our clients paid through digital, today anywhere between 21% to 23% of our clients pay through digital. That has ensured that we can continue to manage growth without adding people correspondingly in a linear manner and we want to take that 21%, 23% number, in a five year horizon, to anywhere around between 40% and 45% for two reasons, it is better for the customers and it gives us the

suspension, which is required to continue to grow the business and third it would bring down cost dramatically.

**Pranav Tendulkar:** Thanks a lot for the response.

**Moderator:** Thank you. The next question is from the line of Pratik Chedda from IIFL. Please go ahead.

**Abhishek:** This is Abhishek from IIFL. Hi Rajeev, hi Sandeep, hi everyone. I have three questions, one is on growth, now with your outlook type you have been paying a little prudent and trying to sort of take steps ahead of time to reduce the risky underwriting that may happen in this kind of an environment, what kind of growth are you building for yourself in the medium term, we know your long term target of 25% to 30%, but in the next year or two years what kind of growth you are building and what kind of sectoral focus will you have in that growth. The second question is on cost, so as your growth moderates how much room do you have to keep your cost metrics where they are, what are those discretionary expenses which you would sort of cut back on and given that in your annual report also you mentioned that you have built capabilities to handle 5X the throughput that is coming right now, so when do you start utilizing that capacity and reducing the investment intensity on people, technology, etc. And the third is on asset quality, so with growth slowing again you will see slippages increasing and you are seeing that over the last couple of quarters or few quarters even FY2019 over FY2018, so what kind of credit cost and slippage rates have you built in your estimates and where do you think you will be comfortable going forward.

**Rajeev Jain:** 38% core growth or 41% growth is a very high growth number Abhishek that is first point i want to make. Growth environment, at this point of time, doesn't change our medium-term outlook. We are a growth company, we will continue to remain a growth company. The environment as I said is patchy, If you asked me this question in April, I would say what is slowdown. By May 15 things turn, we expected that the world cup, just on super discretionary consumption, will lead to consumer walking in and spending, it did not happen. As I said, when I look at micro, 24% super discretionary consumption does not represent a slowing customer, now you add to it auto slowdown and this and that, that is a macro conversation which you guys can do and that is not for me to think on. We must wait for the incoming data, wait for at least Q2 to say that there is a cyclical movement downwards. We are a growth company, but i have always said Abhishek that we are a first risk company, between risk and growth we will choose risk, it is a pretty simple point. I have said this many times, but we are a growth company as well and we pride ourselves for that. I think given we are just 115 basis points of the total credit in India, given we are a diversified company playing across many sectors and businesses and given our market share remains very small, there remains very large opportunity for a long, long period of time. So long term there is no question. For medium term, I would wait for a quarter to see

how things are moving, I would like to believe that if you react to macro, if all the gloom and doom conversation is correct, you will see some action by respective people in places to stimulate growth, the entire conversation can change completely. I would rather look at micro at this point, Q1 was very strong, we will take Q2 view to determine so called medium term, which is a two-year view.

Costs have to be looked at separately. We run a reasonably high variable cost model that is one point. I can dial up and dial down. 70% of my technology runs on cloud infrastructure, allows me to dial up, down dial at a far more rapid pace than anybody in the country. That is point number one. My 'point of sale' people are temp staffing, allows me to dial up, dial down. I am giving you texture so that we are all on same page. My mid office, back office is run by BPO companies, can do dial up and dial down in 90 days. Level 4, we would like to remain a disciplined company in terms of managing costs. Sandeep has a unit, which fundamentally runs a financial planning analysis wing, whose goal is take out blind spots on costs. This year goal alone is that Rs.250 Crores of cost has to be taken out. I am just giving you texture so that we are all doing a disciplined conversation on the way we run business rather than a transient conversation. So that is really on management of cost and our approach to managing expenses and cost.

For slippages i have said, 2018 - 2019 was a record best. Now when I say record best, you have to read it as record best. What does that mean? Can record best become better than record best? Of course, it can, but in general, it need not be that. So, it is glass half, half full, that is point number one. Let us assume for a moment fundamentally that we are at 130 basis points of credit cost last year. Unfortunately, we are unable to publish the last 5-year data on it because of the change in methodology to ECL. Otherwise I would have given you last 5-year data, discussion would have got settled. I can do some maths on it and give you data, but even then, it would not be appropriate because that is a number that you will not be able to validate. So, it is not fair to give you a number that you cannot validate. If we were not on ECL methodology, this number of 69% would have looked like 60%. internally ECL is very difficult to calculate so our internal dashboards are all run on previous GAAP because of the statistical methodology. Small swings in 30 days past due can lead to swing in a month, need not be swing in a quarter and that is why internal management runs on previous GAAP and even when banks transition they will be required to do that way. Risk decisions are made not on lag basis, risk decisions are made on run-time basis. So on a lag basis they run ECL, we build the waterfall, but on a running basis we run it on previous GAAP. So, the credit cost fundamentally must now take into account what happens to the environment. I mean a week ago we were sitting on 12% negative monsoon, today we are sitting on 19%. I am sitting ready that if monsoon was to fail, how I would react. I am just giving you texture so that you understand the agility in an environment, which is perceptibly slow. I am not saying it has to be slow. We will have to be higher and have to

be watch carefully and act quickly. Let us assume for a moment, 130 basis points come in at 160 basis points. Let us do this conversation, okay? Now number does not change the material trajectory of the profit pool of the company for the current year and as I said I believe these things will change, but even if it does not change, the number is not material. You know the math; you can do the math for movement of 130 to 160 basis points, what happens to the number is not material at all. Does that answer your question?

**Abhishek Murarka:** Yes, broadly. So just one part of the first question in growth, which sectors have you planned? obviously you would have planned for something, and then depending on the environment you will tweak that strategy, so basically what I was trying to understand is what your plan is, so which sectors do you plan to grow in?

**Rajeev Jain:** Wherever we are green on, we are growing, come on. The management assurance green means that. So, technically out of 11 businesses, 9 are growing. Okay, let me make a second order point so that we are on the same page. Even the yellows are growing, okay? The net impact of growth on these yellows will be not be same as business cut because what happens is when I go and tell the business manager in Digital Product financing that look I am pruning your bottom 15%. He goes out and finds ways and means to look go out for better customer in the process, okay. When he goes after a better customer the net impact of 15% to 18% in general will turn out to be on a lag of a quarter or lag of 60 days at 7% to 8% let me make that point clear. Because as I said we remain a growth company the opportunity remains very large. Let me give you statistics on Digital Product financing, so that we are all on same page. Country sells 2 Crores phones in a month. 90 lakh phones are feature phones, which we do not finance. 110 lakh phones per month are smartphones. We do not finance less than Rs.10000. That is 55 lakh phones is what we finance. Out of 55 lakh phones, company does, let us say, 8 lakh phones, okay? Our goal is to be 30% of it, which is really where we are in consumer durable business. Now that gives you lay of the land from a depth of the market and breadth of the opportunity that it represents for us. So, we would go out and tell business head that we are pruning your bottom 15%. He will take 60 days and find better customers that he wants to do business with. So, the net impact in general will be 7%, 8%, 9% depending on the effectiveness of the business manager.

**Abhishek Murarka:** Thanks. I think that gives me part of the answer.

**Moderator:** Thank you. The next question is from the line of Parag Jariwala from White Oak Capital. Please go ahead.

**Parag Jariwala:** Yes, Rajeev. So I have two questions. One is Digital Product, B2C and SME, where you are saying that they will be some cut in disbursement. Is it fair to assume that barring SME, other products are very short in tenure so a cut in disbursement would not be a cut in the



overall asset under management that is one, secondly I know you have replied to the earlier question that the products, which are green we are growing, but is there any slowdown in the momentum in terms of, let us say, for housing finance, the number of file login you get it or what are you picking up from your staff on the fields?

**Rajeev Jain:**

So, when I said patchy, what I mean is, a month is harder, a month is softer. That is what the meaning of patchy is, that July can be good, August can be bad. September can be good or great. That is the patchy conversation. I want to and I should have made that point even earlier. What would a company with 37 million customers do when it is finding the environment patchy? Why do we have the franchise? We have the franchise because then we go dig deep into the franchise, we find that clients who were great; on the count 37 million customers we today bank 18 million. Okay, interesting part is, longer the customer stays with you, you have got to spend more to engage him or re-engage him because he is a more prudent customer & he is a better customer. The loan loss of a new customer is  $x$ , I have always said that, existing customer is  $0.33x$ , a greater than 18 months customer is  $0.15x$  so what do you do? You go after them, you re-engage them, you spend more on them because adjusted for risk cost their cost is lower. So, see in a way this point is tied to the previous conversation on Digital Product financing. When I tell a business manager that look, you know what, we are pruning your bottom 15% Go out and find ways to grow. These are ways and means he goes out and grows. The second order point, which we have talked to certain people about, is our prospect franchise. We have given that in India in general, super discretionary business remains a highly unorganized sector. These retailers need help in organizing their data infrastructure. Over the last 6, 7 years, we have worked with these retailers to help them stimulate their cash customers and their credit card customers and it is part of our broader data as oil project and we continue to work with these retailers. We have aggregated working with these retailers to help them. Over the last few years we have added over 100 million people in India from which 37 million that we have a view on. Very interestingly over the last two years these customers perform virtually like a store card customer. So, we are accelerating that. We are accelerating EMI card. That is really what you do in a patchy environment, so-called slower environment. Dig deep, find the best customers, reengage them, spend a little more money on them and given the strength of the franchise, stickiness and loyalty of the franchise we are very confident that and it will be on a 12-month forward basis eventually it means lower costs. So, I am just connecting the last question by Abhishek and by you to give you texture on how growth fundamentally will get generated, even if the environment gets to what television and newspaper environment are saying the way it is. Does that answer your question?

**Parag Jariwala:**

Yes. Some colour on the green ones

- Rajeev Jain:** Green ones we continue to grow. That is my limited point. Some color on the green ones, mortgage business growth is a result of the separation & what is happening externally in the sector, so two things came in at a time: We separated the business, created a more sharper focus. As you can see pre-January or pre-March 2018 to post-March 2018 you take the last 3-year data on mortgages, business was growing 25% to 28%. That number in the last five quarters is growing on an average between 40% and 45%. Mortgages, as we think is not a new business, it is a new company. They are still getting their arms around the new way to run a business, but I would say it represents a tremendous opportunity to become a dominant mortgage lender in this country in the next five to seven year horizon and tough times going currently in the industry also represent opportunities for company. So, that businesses will grow. I would say all our businesses, which are represented here in green, remain on a growth mode. The yellow, we are pruning the bottom. We should be able to find growth on those too.
- Parag Jariwala:** Thanks Sir.
- Moderator:** Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.
- Nischint Chawathe:** A couple of questions. One was on the cost to income ratio and on year-on-year basis and I guess these numbers are again comparable because these are in deck. Your ratio went up from 50% to 56%?
- Rajeev Jain:** What is the ratio again?
- Nischint Chawathe:** Cost to income.
- Rajeev Jain:** Cost to income. Opex to NII is what have published. So, i do not know what you are talking about. atleast I do not have the number, I have opex to NII, which is what we published. So it will be useful if you refer to that rather than number that we do not publish. Nischint?
- Nischint Chawathe:** I will take it definitely...
- Rajeev Jain:** And it will be helpful because when we track, we track it that way and I have last five quarters data on opex to NII that number was 37%, 36%, 35%, 34.6% and 35%
- Nischint Chawathe:** If you could discuss that offline. The other thing is that RBL has indicated that their credit card losses, eventual losses are somewhere close to 4%. So, would your experience be very similar?

- Rajeev Jain:** So, two three things. We work very closely with RBL, they have been a fantastic partner of us. The business continues to grow well. We are helping them acquire close to 1,00,000 to 1,10,000 new cards a month. We came in at close to 1.3 million cards in force as of Q1. We are well on course to grow with RBL the relationship to 2.2 million to 2.3 million cards by March 2020. Second order point, the book is maturing now or has matured over the last two-and-a-half years. They share with us the vintage household data and we work with Bureau to look at how this portfolio that we originate, behaves. Given that we work very closely with them and the portfolio of top 4 leading credit card issuers in the country shows that our numbers are lower. Now this may differ company to company, but because Bureau cannot share company-wise data, it shares the aggregated top four card issuers in the country and you know who are those four that we are fundamentally talking about because they own 85% of the market. It is better because we sell to existing customers as a company. Even then let me make another point. Card-to-card customer operates much better. If you took a very harsh view and said we will only card the carded because those numbers are half of that of a new to card because there is a learning involved of the customer, we have to educate the customer, but for the long-term growth of a credit card business in this country, for a long-term growth of creating a dominant credit card issuing business in this country, we think that road has to be traveled upon. Blended number still comes through lower than the top four leading card issuers in India and we are committed to remain that way for us as a company over the next few years. Does that answer your question?
- Nischint Chawathe:** Yes, fairly. That was it from my side. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Atul Bhole from DSP Mutual Fund. Please go ahead.
- Dhaval Gada:** Rajeev, This is Dhaval here. Just a couple of questions. First is on the portfolio quality. So if you look at how we are shaping up in terms of increasing share of existing franchise customers in the portfolio and also the new flow that is coming through is far more filtered and given the duration of our portfolios would you expect that in next 6 to 9 months the portfolio quality can actually be much better than where it is today I mean, would that be sort of positive?
- Rajeev Jain:** I would just say to you, given the patchy environment, given the degree of, patchiness that we are seeing, I would wait for a quarter to fully open on it. I would only just say to you what I said at the beginning, we remain a risk driven business, and in the short term between risk and growth if you have to choose, we will choose risk because we are building businesses from 5 to 7-year view. Does it remain our aim to keep bringing down credit cost as a company because that is what represents, a true engine of a risk business. The engine of

a risk business is not capital, not pricing. Engine of a risk business is risk cost. That is the foundation on which we have built this business. The long-term engine of a risk business is a risk cost and that is why we are so conscious about this line. So, in the long run it has to keep coming down. In a few forums I have talked about what are collections efficiency used to be four years ago or three years ago, two years ago, and a year ago, all that represents that we keep working on bringing down credit costs, but that does not mean it can mean one way down, we run a real business, we run an operating business, we remain in a subsystem of a broader economic system in a country; however, if it was to deteriorate the environment I can only just tell you one thing that we will be amongst the less affected people. It is a limited point I would make to you because we are agile, we act early, we mobilize the company and ensure that we keep our head above water through difficult times that is really all I would say to you. Does that answer your question?

**Atul Bhole:**

Yes, it does. And just two more things. One is on the rural business, if you could just give violets and green, just qualitatively, if you could talk a little bit about how you have evolved this business over the last six, nine months and some colour or texture around that and just one last thing is in the last few months how has the competitive landscape changed, I would assume that it would have got even more stronger for the company. So if you could just talk a little bit around that the business that we have avoided and some texture around that? Thank you.

**Rajeev Jain:**

So look, fundamentally, it is a business, which takes time to build. We have been invested in the business for the last six years. This is the sixth year of business. We took the first three years to put our arms around it. In the last three years, the business has grown much more rapidly. In the first quarter, most of the addition of branches is in rural that we have done. For the quarter majority of the addition, if you go to panel 28 has been in rural. In March we added 48 branches in rural, out of the total 65 and balance 17 only in urban. So, you can see our stands on expansion is much stronger in rural than it is in urban that does not mean we are not growing urban. We are using a different way to grow in urban. One of the biggest challenges in urban is that the cities are expanding. So, the number here may not represent the urban branch growth, but what we are deploying in 120-plus market, a very different methodology to actually grow the pool of customers that we work with in urban. So, that is a separate point, but I thought I will just cover that. Stance on rural remains strong. While we do not lend to farmers, less than 2% of the total booking of the B2B is to farmers & 0% of B2C to farmers, but they operate in an ecosystem where they can, they can be affected and impacted if monsoon fails. Wherever there is ground water supply in abundance, monsoons have no impact. Wherever it is lesser, monsoon has an impact. Every year as part of the discipline process, we start to check in June that which are the markets which will get impacted if there is an impact on monsoon. So, we are watching the movement of monsoon. So far other than four districts in India where we are present in, we

are fine. There are parts of our businesses in rural, which are starting to grow lot more strongly now. We were very strong in B2B; we were very strong in B2C. Rural gold loan is something that we have been building for the last three years. Given that business is now moving much more rapidly. We have just opened 23 standalone gold loan branches in rural. We have tested with 10 branches 9 months ago. Performance was very good. We are adding 23 more. As we perfect the model, rural gold loan could be 500 to 700 branches business in the next 5 to 7-year horizon. We would not do gold loan in urban. Has market opportunity become better in rural? Answer is I would say, no. It is 550 markets plus. It is a damn hard one to reach. Other than one of the leading private sector banks there is very little presence. So, the market remains underpenetrated or unpenetrated at this point in time and has remained over the last five to six years.

**Atul Bhole:** Yes. So just one followup. In rural gold loan business you talked about how does that sort of come in the overall strategy of catering the affluent customers segment?

**Rajeev Jain:** No, very valid question. Our average ticket size in gold loan is Rs.85000. Let me give you a texture. I am sure you track others. The maximum loan that we can do in rural gold loan is Rs.1 Crore. So, the strategy remains affluent, ticket size is upwards, as I said hover between Rs.85000 to Rs.90000 so that is the texture. Third order point and it is a little more structural. I think, somewhere I saw one of the analysts present, one of the brokerage presentations talking about NASA image that how India has lit up well in the last five, seven years. It is quite at one level I would say shocking, which means shocking in a positive way how India is lit up and that is really how the demand outlook of the rural market would get transformed. So electricity is ensuring discretionary consumption move. Second order, I think the overall Law & Order in most of the states that five years ago you would say I struggled to do business in, has improved. Let us say I give you one example, Bihar. People would not buy cars and homes and big televisions because they can be targeted. I am just giving you texture, I am just giving you what the people on the ground say to us, our retailers on the ground say to us, so gold loans fits in from affluent rural customers because it is one of the assets that they own in abundance. Second product that they own is land. I cannot do financing on land, so the only thing that I do is gold and it is a 3-year-old business. We found our way to growing and building it and we are quite excited about growing the business as we move from here and remain in affluent focus.

**Atul Bhole:** Perfect. Thank you and all the best.

**Moderator:** Thank you. The next question is from the line of Bharat Shah from ASK. Please go ahead.

**Bharat Shah:** Rajeev, while a quarter is a short period, I was just comparing the numbers for this quarter compared to last 12-year average on various key parameters and I was quite impressed to

see that even on a larger base asset growth continues to be in line of what has been done over a 12-year growth. Interest income actually exceeds, fee income exceeds, and net interest income also exceeds the 12-year compounded average. So, on a larger base to achieve that is truly significant. On three numbers, I saw where the quarter numbers are kind of having a bit wash off than the 12-year average. So, expense math, which, I guess, probably what you have mentioned that going forward the cost of borrowing is coming down significantly, probably that may turn favorable again. So, I would like to hear your comments on that. On the operating leverage, it has continued to decrease but little less than the last 12 years and third, the quarterly provisions have risen materially to 69% compared to average loan losses of about 27% over last 12 years, so on these three aspects if you can just give some view, that would be helpful?

**Rajeev Jain:** The first question was expense base right?

**Bharat Shah:** First was interest expense. For this quarter it grew 55%. Last 12 years if we see interest expenses have grown at 40%. But I have seen the comments that interest expense incremental borrowings are at much lower cost, so I suspect interest expense probably again will start turning favorable in spreading that leverage?

**Rajeev Jain:** So, two points, Bharat bhai. Incrementally whatever issuances that we do in the bond market and the CP market are available in public domain. Clearly if I took a two, three months prior view to today, 3-year bond that we were issuing are clearly coming down from 8.5%, and I am talking in quantum conversation ,to 8%. It is available in public domain. I raised money at 7% in 60-day CPs. Now i raise at 6.3%, 6.4%. So clearly - so that is one part. Second order point, Bharat bhai is that capital adequacy, you will have to tie this interest cost along with that. So, if you adjust for those periods, capital adequacy, you may see a steadier line adjusted for, given interest cost is the macro market driven conversation, but one of the silver lining crowd of this whole patchy environment is likely to be more surplus liquidity in the system which should lead to lower inflation, but it is difficult to predict. We will continue to sharpen the pencil on that, but there is a third order point, Bharat bhai. You will see the line, however adjusted for the macro, move up a little because we are investing and building for the sustainability of the business, a retail deposit business. These Rs.15000 Crores or Rs.15100 Crores of retail deposit come in at a higher price. It is the cost of sustainability that I must invest in so as to have 10-year view on us as a company and as a business. I can only tell you that we continue to chase efficiency in ensuring that we keep bringing down our cost of funds, adjusted for the macro, adjusted for retail because it is an investment that we must make to deliver greater sustainability of the business model. So that is part number one. Operating leverage, I have said in the past that I said actually in last quarter as well, that so far opex to NIM movement has fundamentally coming from movement in NIM than movement in opex. In fact, I want to add a dimension to just the

earlier comment that I made that why are we not seen urban branches growing, okay? Branch expansion in a retail business and I am giving an illustration to make my point. The branch expansion represents a 12 months forward investment. We realize that in urban business we are already in 550-odd cities, adding a location is dilutive and given that these urban cities are growing on the fringes, so to open a new spoke in a city is more economical than opening a new city. I am just giving you texture. I was making the point that we must have as much focus on NIM as much we focus on cost. We are investing very deep in areas like robotic process automation across the company to take out variable headcount or fixed headcount. So, there is lots of work happening. We are rightfully balancing between growth, controllership, sustainability and will keep navigating through that. On third point, which is loan loss and provisions I have said this over the last one hour that last year they were at record best. Given the granularity of the portfolio that does not mean it can worsen from here. As I said our intent remains to continue to improve it because that is sophisticated nuance risk management conversation. If this patchy environment is to persist, you will see the 66% existing customer to new customer probably shift to 70% to 75%. It will, in a three-quarter, bring down loan-loss, let me tell you. My problem is new customer represents the future growth of the company. So, I have to balance even that equation to from a medium-term standpoint. So, it is a calibration keeping into account these dimensions and as I said earlier I was not giving guidance, I just made a point that let us assume the full year credit cost came in at 160 basis points. It does not change materially the colour of the business or colour of the profitability in a material manner. So I have left you with some questions, I realize, but I have to give you rounded, I mean if comprehensive answer rather than a straight line response. I hope you appreciate.

**Bharat Shah:** Yes, absolutely, Rajeev. I fully appreciate what you said. I must say this is a remarkable performance in the overall context and especially maintaining ROA at 4% and record return-on-equity at 24% congratulations to your team and you.

**Rajeev Jain:** Thank you. We continue to be at it.

**Bharat Shah:** Thank you.

**Moderator:** Thank you. The next question is from the line of Kuntal Shah from Oaklane Capital. Please go ahead.

**Kuntal Shah:** Since the gloom and doom is a flavor of the season, I have two questions on that. Sequentially, hardly any change in GNPA, NNPA, but narrative has changed. So, can you go to the slide 44 and run through that. You have already provided for Rs.1270 Crores of stage 3 slippages and are aspiring to collect Rs.824 Crores of those, which you think is recoverable based on your internal estimate. Is that a fair estimate to say and that you are

over providing based on ECL, 86 bps versus required 40 bps, so that gives you the quotient, coupled with 61% coverage ratio?

**Sandeep Jain:**

Kuntal, this is Sandeep here. The point is correct. Based on ECL model, the net NPA number of Rs.824 Crores, as of June 30, 2019 represents the recoverable amount of NPA. So that statement is completely correct. As far as standard assets provisioning, which is provisioning on stage 1 and 2 or customers with less than or up to 60 days overdue is concerned, it is calculated based on expected credit loss model and we are providing it as per the model output. It is certainly higher than what regulatory provisions would have required us to make in earlier environment, which is 40 basis points but this is purely based on statistical outcome of how the performance of the balance sheet and the portfolio is being seen.

**Kuntal Shah:**

Thanks Sandeep. We note that your metrics are far better than the other financial services and banking companies you get compared with. So, comparing with them, when I see the fees based income is almost 38% to 40% of their total income and almost 60% to 65% of their PBT versus like 38% of PBT for you, so any 5-year roadmap you can highlight on how you are planning to increase your fees based income, which is more distribution and not balance sheet linked and hence, more stickier and ROE accretive?

**Rajeev Jain:**

Kuntal, it is already higher and in general experience and in general expectation we will continue increase. Our focus has to be to continue to create products and services, which our customers want to buy. Second part is that the more we reduce friction, more it creates opportunity for our customers to do business with us. I think and we, as a company remain much focused on that and as long as we remain focused on that we will be fine. We talked about in the AGM yesterday that we have invested in a new point-of-sale reinvent platform, which can process 50 million customers annually from let us say if you take 7 million customers on the quarter, that means we are talking about 30 million customers or 28 million on a full year basis. The metric earlier used to be three days to pay our retailer. That number is now tracked at how many retailers you are paying in 3 hours. For 55% ,we pay in three hours. Now the point-of-sale boy invests less time in selling and documenting and more time in selling products and services that we create. I think that as long as we remain focused on improving efficiency, creating products and services. This number can go to higher and higher. So, I am giving you philosophy rather than a number guidance.

**Kuntal Shah:**

There have been regulatory filings where Bajaj Finance has taken pledge of shares of some mid-sized auto ancillaries, which are primarily illiquid and are loan against shares, but would you, clarify are these loans against shares or are these additional over collateralization of other kind of auto ancillary loans which you are giving out?



- Rajeev Jain:** This is over collateralization of our security structure. The names are only two or three. The total exposure on that is sub Rs.30 Crores that means I can consolidate Rs.40 Crores. They are very well run companies. We want to ring-fence our predominant position of working with those promoters and companies. Their ratios are very good. So it is a commercial lending conversation on these two, three clients rather than anything else.
- Kuntal Shah:** And Rajeev, last question from my side. At what price of sale of towers in the GIFT City would you breakeven and what kind of time lines you envisage?
- Rajeev Jain:** I do not know if it is in public domain. The sale has happened higher than at what we sold in the last December 2017.
- Kuntal Shah:** So you are confident of full recovery?
- Rajeev Jain:** Yes. I must just qualify subject to NCLAT proceedings.
- Kuntal Shah:** What is the timeline you have in mind approx?
- Rajeev Jain:** Company says that given the nature of the collateral, CBRE has sales anywhere between four and six months' time. It can happen faster, but that is the internal conversation or conversations that management seems confident of.
- Kuntal Shah:** Thank you. I will join the queue.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraints, that would be our last question for today. I now hand the conference over to Mr. Karan Singh for closing comments. Thank you, and over to you Sir?
- Karan Singh:** Yes. 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 for joining us on the call today. Thank you, and goodbye.
- Rajeev Jain:** Thank you, Karan. Thank you for hosting us. Thank you.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of JM Financial, that concludes today's conference. Thank you all for joining us. You may now disconnect your lines.