



“Bajaj Finance Limited Q4FY17 Results Conference Call”

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MODERATOR: **MR. KARAN SINGH – JM FINANCIAL INSTITUTIONAL SECURITIES LTD**

Moderator: Good Day, Ladies and Gentlemen and Welcome to the Bajaj Finance Limited Q4 FY'17 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 the 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. Thank you and over to you, sir.

Karan Singh: Thank you. Good Evening, everybody and Welcome to Bajaj Finance's call to Discuss the Fourth Quarter Numbers. To discuss the results, we have on the call, Mr. Rajeev Jain – who is the Managing Director; Mr. Sandeep Jain – Chief Financial Officer and Mr. Rakesh Bhatt – Chief Operating Officer. May I request Mr. Rajeev Jain to take us through the "Financial Highlights", subsequent to which we can open the floor for "Q&A Session." Over to you, sir.

Rajeev Jain: Thank you, Karan. Good Afternoon to all of you. You may have seen the 'Press Release' that we put as well as the 'Investor Presentation' which is updated for Q4. Overall, it has been, I would say pretty good quarter for the company coming out of demonetization. I think for the quarter that went by the company did a record 2.5 million loans. I think it is the highest that we have done ever, just a tad below 2.5 million. Total franchise of the company grew at 20.13 million. The total income was up 38% to Rs.2, 673 crores. PAT was up at 43% to Rs.449 crores, a tad below Rs.450 crores is what we came in. This is despite the fact that we took accelerated provision to the tune of Rs.70 crores on account of demonetization and non-recurring provision. As we had articulated and guided investors that based on our stress test, the assessment is that we will see Rs.100-120 crores impact on account of demonetization. We have retained Rs.70 crores of that. The residual Rs.40-50 crores we will eat over a period of the next three-four quarters, that will be non-material in nature and we will emerge over the next two-three quarters. But overall I think it has been a good quarter. As a result of demonetization and as a result of the accelerated provision, and slippages that we saw between November and December, we have seen gross NPA, net NPA rise, on 120-to-120 days basis they moved from 1.36 to 1.68, that is 20-basis points movement and 0.34 to 0.44, that is 10 basis points movement on net NPA. It has largely come in from Two-wheeler lines of businesses and loan against property line of businesses, other 17 lines of businesses are back to pre-demonetization levels from asset quality standpoint. As a result you would also see in our 'Investor Presentation' the loan against property portfolio growth was only 1%. Two-wheeler, they will still grow given that we are to some extent captive in nature but we will lead the residual Rs.40-50 crores over a period of next three-four quarters and the entire impact of demonetization should be behind us. Overall, it has been a good quarter for us as a company and a very good fiscal that went by. That is it.

I am happy to take questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of HR Gala from Panav Advisors. Please go ahead.

- HR Gala:** Sir, we are at the end of FY'17. What is your outlook for next year if you can give us something in qualitative terms sir?
- Rajeev Jain:** I think we should see growth across. That is one point I would make. SME take maybe one maximum two more quarters before it is completely out of woods. So overall, we should see growth. We continue to guide for 25% balance sheet and 20% net income on a sustainable basis for a reasonable medium-term to long-term outlook. We continue to remain committed to managing our risk right. I think these are the three things I can say from a guidance standpoint as we get into the new fiscal.
- HR Gala:** But sir, we have been guiding for 25% balance sheet increase and 20% PAT increase, but consistently we have been delivering much-much higher than that. What would be the realistic things we could look for?
- Rajeev Jain:** No, I continue to say that the business model is organized for 25% balance sheet growth and 20% net income growth. If we outperform with management that is for the shareholders to take. So that is really how I continue to state it. So we have so far successfully managed to navigate and balance growth with risk management. If we continue to do that, it will be great. But in a given quarter, if we do not manage to do that and we need to pull back, I want to make sure that we can pull back. It is not guidance, it is not even outlook...
- HR Gala:** Yes, what you probably aspire to get to?
- Rajeev Jain:** It is approach to where we conduct our business. I am stating to you in all candid our approach to conducting our business.
- HR Gala:** Sir, any other risk areas do you perceive that could emerge in the next year?
- Rajeev Jain:** No, we are quite comfortable. I think essentially the increase, gross NPA, net NPA came in from two-wheelers and loan against property. We are seized of both. Sitting here at this point of time we are quite comfortable. We will see increased competitive activity as we move forward. There are lots of non-banks wanting to emulate our model. So we will see some degree of irrational exuberance, irrational behavior on pricing, on risk management, we have strategically identified how to go about it which has essentially continued to go deeper and deeper into and make our portfolio more granular. So we are continuing to do that in a very systematic while remaining aggressive in achieving our objective.
- HR Gala:** From 120-days to 90-days we will be migrating in next year?
- Rajeev Jain:** Yes, we will migrate, we will publish first quarter results with 90-days, there will be no provisioning impact as I have said before, and there will only be a reporting impact.
- Moderator:** Thank you. The next question is from the line of Kuntal Shah from SageOne Investment. Please go ahead.

Kuntal Shah:

My question pertains to a) we have started new line of business in warehouse receipt and I am sure you are aware of American Express to ICICI all the issues with warehouse receipt finance. So any texture of how we are going to mitigate the risk in that line of business? Secondly, Lifestyle, the finance portfolio, there is some cause of concern as you have highlighted in your presentation. Can you give texture of that? One important question I have is regarding the Two-wheelers and LAP Finances. What is the behavior of consumer you are witnessing... do you expect some recovery? Last question would be that we have only issued 30,000 credit cards that you have a large installed base. So if you can share of the rollout you have?

Rajeev Jain:

First one was warehouse receipt what I am saying, our approach to running a business is to manage risk right if we see risk emerging we will pull back, we have chosen to not do large ticket, let me make one point, it is largely doing warehouse receipt financing in a granular manner, not exceeding Rs.4-5 crores to a single client. So that itself is a biggest risk mitigant. We are not out there to distribute loans. In a way it is SME warehouse receipt when I am saying business. Maximum exposure at this point of time that we foresee will not exceed Rs.2-3 crores. So that itself is the biggest risk management mitigant. We do not like to be in a hurry to build our businesses. We will move very gradually. It is not likely to make any meaningful contribution and impact on whether the balance sheet or on P&L from two to three-year standpoint. We recognize also the fact we take our time in growing businesses. It is rural businesses only now in the last three-four quarters growing rapidly whereas we invested in rural businesses four years ago. We see the growth rate accelerating in rural as we move from here. We are now in 538-odd towns and villages in India. You may see us get to 700 by end of the year. So once we get our arms around the business, that is when we grow. That is really what we will do for WRF as well. But do we want to be there as that industry gets to be digitized in terms of DP participation? There is tremendous horizon on the business from a long-term standpoint. On two on Lifestyle, it is a good business, I have given management assessment as yellow, you can see versus March '16 98.29 to 97.32. The impact of it was visible to us in September and December as you can see. This is a mix of businesses. There is Life Care sitting there, there is Furniture Financing sitting there. Essentially, these are two large businesses. In Furniture Financing, as we expanded into Tier-2, Tier-3 cities, we saw some impact of fraud loss emerge, we circle that up and we incorporate the changes or the learnings that we have had and we are back to a growth mode in the business. One of the things that I have not talked about in this business is a year ago we launched Life Care Financing business which allows for elective surgery to be financed, Synchrony in the US has a close to a billion dollars of portfolio in healthcare financing, we now have close to 2500 hospitals and clinics across the country in top-30 cities which accept our EMI card for elective surgeries, it is now contributing to 6000-7000 accounts per month. So we are quite excited that itself could become over a period of time independent line of business. So that is point #2. Point #3, the texture that when you are getting in Two-Wheeler and LAP, LAP is clearly directly correlated to Real Estate business. If Real Estate does not come back, LAP is going to continue to struggle is what I would say. We have made structural changes in the way we conduct our business three years ago to today. We were focusing on super affluent and HNI, we have now gone retail, averaging down to Re.1 crore per customer, we are now in 80-cities, and we only

do direct to customer, we have reengineered the processes. But out of Rs.8,500 crores, there is still residual of Rs.2, 000 crores of what I call largely the portfolio. There is no concern with it, but in a quarter or so if it moves a little, it causes noise. Larger the client, longer is the time that it takes to work with the client. But the good news is out of Rs.8, 500 crores it is only down to last Rs.2, 000 crores. We are comfortable you may see a spike here and there in a quarter. If you look at the loans against property portfolio for the information that is provided last year same time March '16 we were 99.24. So current clients have not moved, in fact, it has improved. However, we will see some slippage in 90+. SARFAESI is beginning to make a big impact I must articulate that to all people who are there on the call, it is beginning to have in the mortgage portfolio a significant impact on bringing client to the table and work on settlements to recover fully or partially. On the Two-wheelers side of the business, it is a retail portfolio. We have seen bounce rate grow. As a result of the bounce rate, slippages have grown. That is really where Rs.70 crores also came in from across all our portfolio. If you bounce growth, and your collection efficiency remains same, it still means your loan losses will grow. So if I have to collect from instead of 100, 110 bounce and I collect at 95% in both the cases, it will still lead to higher loan loss and provision. So that really behavior that we are seeing. Urban Two-wheeler is a little bit bigger problem than the Rural Two-wheeler. We have seen that even in our broader affluent rural lending portfolio as well where we see no impact in bounce or collection performance in the rural portfolio. Now, lastly credit card, I go back to the WRF conversation. We take our time in growing the business. I think for the first time we have entered into a strategic partnership. We are building capabilities stack between both the partners which is RBL and us. We are investing in capabilities. Let me make a point, ending Q2 you may see us get to 30,000-40,000 accounts business per month which means by third quarter we may be at 120,000-130,000 accounts per quarter. I think next year will be a big year for credit card business. This year will be a year to put our arms around the business, get the bills and business going. Next year should be a year of contributing meaningfully to the portfolio.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from Alfaccurate Advisors. Please go ahead.

Rajesh Kothari: One is continuing with the last question that in Lifestyle financing, if we look at even on QoQ basis, there are some segments probably where you have decided not to grow, particularly like consumer durable. So if you can give a little bit idea on the competitive environment in different segments like for example three years back LAP was very hot, you exited that portfolio altogether, Infrastructure Financing, six years back was very hot, you decided to exit from that segment. So do you think from current segments, which are the most right now where competitive intensity is very high and you are watching it very carefully? Question #2 is I also keep seeing you are entering into new areas much earlier than the competition enters the segment. So any areas which you think like for example you mentioned about Healthcare in US is \$1 billion portfolio. Likewise, which are the other opportunities which are currently unpenetrated and untouched but may become \$1-2 billion size over a period of next 5 to 10-years. So, if you can just give these two things, that would be great?

Rajeev Jain: Look, I think 10-years into the last consumer credit crisis that happened in India, so 10-years is a long time for all memories to fade, clearly, a lot of money is going to chase wanting to create retail consumer business now in India again. So there are lots of conversations that people now hear much more than they used to hear earlier. So clearly you will see increased competitive intensity across most of the lines of businesses that we are in, in some faster, in some slower. So that is one point I would make. It will mean pressure on margins, it may mean slower growth, but that is the purpose of diversification that why we created. Other than auto loans business we have all products that a consumer-client may require from a retail lending standpoint. We will continue to manage in a smart way if I could use the word, the diversification to our advantage to ensure that we do not allow risk to creep into our business. But it is very difficult to articulate where are we seeing greater competitive intensity. We are clear, we will see competitive intensity across all the lines of businesses from consumer durable in one end to let us say personal loans to home loans is already the most competitive, to SME lending...SME is already very competitive. Does that answer your first question?

Rajesh Kothari: Partially, what I meant was that, are there any signals like consumer durable, you decided not to grow in a bigger way. So, do you see compression on margin or do you think that demand growth is...?

Rajeev Jain: Let me answer it little differently. So we are clear if I pick the point from what I made to you earlier that we will see competitive intensity rise. If I convert your questions to what are we doing, you will see that in the last 15-months we have accelerated the pace of our geographical expansion because we think most of the action and most lines of businesses will happen in top-15 to 25-cities in India because that is really what I would do if I was launching a new NBFC or if I was a new bank getting into retail credit. So we will pull back in the top-15 or 25 markets if the competitive intensity reach a point which we do not believe is the right place for us to grow. We would grow in markets where competitive intensity will be lesser or margins will be better or there will be greater granularity to portfolio. So if you see that now in 876 towns, cities and villages in India, you will see us cross the 1000 towns, cities and villages mark in India by March '18, it maybe even 1,050 that we may get to. So we will create more and more granularity in our portfolio as we go forward from here. So that is really what we are up to. It is difficult for any new competitor to achieve. It can only be done by I would say top two or three private banks in India, rest cannot do this overnight because it is a multi-year effort.

Rajesh Kothari: Just a related question to that before you answer on the new businesses, like for example, we have seen the Salaried Personal Loans 36% growth and Salaries Home Loans we have seen about 131% growth. Do you think this affordable housing there are so many housing companies entering and competitive intensity again really compress margin or do you think there will be consolidation over a period of next two-three years?

Rajeev Jain: It is a very-very large industry. So you will not see consolidation. It is a slow burn business. It is an AR business. It is a lazy AR. So you will not see consolidation that quickly, I am

reasonably clear about that. We remain reasonably focused on affluent clients. So right now I understand fully that affordable housing and affordable housing finance is the lased favored and fad. We are not chasing it in any given manner. We think there is tremendous opportunity in the affluent mortgages business and we remain focused on that. You are likely to have high double digit or even triple digit growth in the Mortgages business where the self-employed mortgages or salaried mortgages from us in FY'18 as well and we are not chasing in any given manner affordable housing finance. Entry on the new businesses, in general, our products expansion with the launch of credit card business is largely complete, you may hear from us in the next one or two areas, I would not be able to articulate that at this point in time, there is one area that we are working on which you should hear about it from us in the next two quarters.

Moderator: Thank you. The next question is from the line of Onkar Kulkarni, an individual investor. Please go ahead.

Onkar Kulkarni: Can you share the contribution of Housing Finance business in your overall portfolio?

Rajeev Jain: Housing Finance portfolio is essentially broken up into three parts. Rs.3,000 crores of salaried home loans, Rs.3,600 crores, that is Rs.6,600 crores, another Rs.1,800 crores, so close to Rs.7,000 crores.

Onkar Kulkarni: Do you foresee this business to grow like your Consumer Finance business which used to grow in 35-40% kind of CAGR?

Rajeev Jain: Answer is yes, because our base is very small, so you are likely to see reasonably strong growth and they are low margin businesses which essentially means operating leverage is very important, we have been at it over the last two years in optimizing the way we conducted lower cost, which will be reasonably rare, you should see greater acceleration in the Mortgage business as we get into the current year.

Onkar Kulkarni: Can we see any separate listing of Consumer Finance from you?

Rajeev Jain: Not in the near or medium-term.

Onkar Kulkarni: Earlier question was related to new businesses like what kind of other areas of financing you can explore which are not there currently in India but they are in the developed world?

Rajeev Jain: There is work that we are doing in this space but I would not be able to articulate until we go out and launch.

Onkar Kulkarni: I am just asking you to share the kind of financial segments are there in the developed world, not here?

Rajeev Jain: Let me make a point to you that fundamentally if you are a customer of mine, other than auto I am meeting all your needs. So that is one point I would make. The second point I would make

is that globally the direction is essentially how do you bring the power of networks to offer the same products that you have but in a friction less manner to your clients. So that is a greater importance increasingly than the products because we virtually offer a full product suite to our clients is really how I would articulate that what is happening globally or likely to be happening from a direction standpoint.

Moderator: Thank you. The next question is from the line of Viral Shah from Credit Suisse. Please go ahead.

Viral Shah: So, I had a question on the Consumer Durable portfolio. So earlier you had highlighted that you were cautious on that portfolio and going forward if I look at the credit quality in that portfolio, it has not improved?

Rajeev Jain: That is not correct. You see where it was in September and December when we pulled back, we guided the street at 97.72% that we have pulled back. One you will see as long as we remain very close to 98%, our comfort level remains reasonably high on the business. So at this point of time our management assessment is green under this business.

Viral Shah: So you will be continuing to now again accelerate in this segment?

Rajeev Jain: Answer is yes, and as we get to Q1 because we are virtually in the middle of the first quarter, you will see further improvement in the portfolio despite the fact it is a short-term portfolio, there is still a lag effect.

Moderator: Thank you. The next question is from the line of Ashish Sharma from ENAM Asset Management. Please go ahead.

Ashish Sharma: Just on the question regarding the credit cost. First of all, the one-time non-recurring provision. So we did not have taken any RBI dispensation for the asset quality. So I would assume this is specific credit charge for the losses?

Rajeev Jain: That is correct.

Ashish Sharma: You mentioned that we have taken Rs.70 crores in Q4 and there would be residual of Rs.30-40 crores which will come in Q1?

Rajeev Jain: Not Q1, over a period of next two-three quarters. No more lumpy number is going to come in.

Ashish Sharma: Just net off this one-off in terms of credit cost, I think we had discussed the same thing last year and you mentioned that credit cost can normalize. So if we sort of remove again this one-off, where do you see the normalized credit cost

Rajeev Jain: 110-120 basis points average assets. That guidance does not change. You are saying 30, 40, I am saying 40, 50 crores, will essentially transit through the SME book over a period of next

two-three quarters. By third quarter we should be back to our run rate of between 110 and 120 basis points.

Ashish Sharma: Second would be on the cost-income ratio. We are at 41% but I think you have always mentioned that we can go down to below 40% but we need to keep sort of investing for the future. So just from that aspect, currently, we are at 41%, it should remain around these levels going forward or do we see some ...?

Rajeev Jain: We are investing in something called BFL 2.0 as a company. So you will see investments remain at elevated levels in the current fiscal. We should be done with our investments whether in talent, technology, capabilities or distribution. Most of it will be behind us in the next five to six quarters. So you will see it remaining elevated in the current year and it should normalize and we will start to chase 40% number from next year onwards.

Moderator: Thank you. The next question is from the line of Umang Shah from Emkay Global. Please go ahead.

Umang Shah: I just had two questions: One was on the co-branded credit card. Basically, 30,000 credit cards that we have issued, your presentation mentions that there are similar kind of value propositions in terms of no cost EMI available to the customer. So when the customer swipes the card, where does the risk sit – is it on our balance sheet or is it on RBL Bank's balance sheet?

Rajeev Jain: It sits on RBL's balance sheet.

Umang Shah: So basically how do we make money through this proposition – through fee income, is it?

Rajeev Jain: Yes, through a fee income, absolutely.

Umang Shah: But is it transaction based or is it a one-time fee that...?

Rajeev Jain: We are not allowed risk, we are allowed revenue share and distribution. These are the two things we get.

Umang Shah: Is there a no-go for Bajaj Finance as well as for RBL Bank in terms of any product lines which is internally agreed upon?

Rajeev Jain: This franchise cannot be cross-sold any asset product other than personal loan which is core to the credit card business from an industry standpoint.

Umang Shah: Do you see the recent trends that we are seeing in some of the IT companies and the start-up companies in terms of laying off their employees. In the medium-term that might start affecting asset quality in our CD or the consumer related businesses?

Rajeev Jain: Every time one of the companies goes out, my risk guy comes and tell me, should we pause lending to them. So this is one of those conversations, Umang. That industry is going through structural change. That you guys understand it better than I do. I do not think anything is changing. Overnight we remain focused on mass affluent clients. I think that is the important point I want to continue to anchor. Mass affluent client being defined at 60,000-70,000 to a million rupees as we go towards more longer-term products. That client is well educated, well guarded against shock, he is employable if I use the word much more than as we go lower down the rung. I think that is our core risk management principle that helped us well through. If you ask me the same question that IT companies have been going through “Difficult Phase now” so-called difficult phase for 3, 4, 5 quarters. We will see no impact on our salaried loan portfolio or salaried customers who sit across the consumer portfolio gives no impact. If we did see, we will pull back. We are quite clear about that as well.

Moderator: Thank you. The next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: Just two questions from my side: One is I see that over loan against shares portfolio has grown quite smartly this year and I see that we have started lending against the ULIPs or the financial products by our parent. Like do we plan to expand this portfolio to say the SIPs or the mutual funds of other manufacturers because I think this is some mega trend which has just started?

Rajeev Jain: No, we have been offering against bonds, against mutual funds and against shares as part of the portfolio for some time now. Mutual funds contribute to around 20% of this balance sheet that you see of close to Rs.4,000 crores. So Rs.700-800 crores is already sitting there of this would be lending against mutual fund units, adequately covered by the SEBI’s requirement of 50% margin. So we think it could be a very large opportunity. On loans against insurance policies, we are closely working on a test basis with our group company which is Balic. We have to necessarily get “Lean Mark.” So we have created a process with our group company. If that works, we will essentially go to our other life insurance partner. If that works, we will open it to other insurance companies. But at this point of time it is a test. I must make a point that loan against the life insurance policy “also remains to an extent” go to the insurance companies because the IRDA norms allow them to give loan against it. So they do not like to do it is what we understand but if the client asks for it, they are supposed to do it. If partnerships emerge in this space, it could be mutually beneficial to both. So you will see it grow. We will go more and more Retail and Loan against Securities you may see Loan against Securities sitting partially in commercial and partially even in consumer and SME over years to come.

Digant Haria: My second question is on the Two-wheeler. The demonetization thing, has it like really increased the propensity of the customer to take a two-wheeler loan instead of just paying outright cash and buying the vehicle? What is our Two-wheeler portfolio exactly? Presentation is Two plus Three Wheeler combined.

- Rajeev Jain:** Three Wheelers not got that badly impacted, is less impacted, Rs.700 crores and Two-wheelers is more impacted; Rs.4300 crores. Impact is greater on Two-wheelers than on Three Wheelers. So that is one point to make. There was a request that we should essentially share collection efficiencies. We removed it because it would have only shown one impact that we did not want to put here that cash is back in the flavor. I do not want to put that. Collection efficiencies are back to where they were even in the Two-wheelers business, but the slippages that happened between November and December and January, have taken their toll. So you see the current portfolio improve from 84 to 85.67, you will see go back to 88-89%. But the slippages that have happened have happened. It has recovered, but slippages that have happened given that we are dealing with mass or below mass customer has a higher propensity to flow than on a mass affluent customer. So we are going to eat some, out of the Rs.290 crores number, Two-wheelers has a reasonable contribution from a onetime standpoint because that stressed asset is based on slippages. So collection efficiency are back, but what has slipped in bucket-2 and above, some of it we are going to eat as a loss, but incrementally we are not seeing further slippages as we go from here.
- Digant Haria:** Whatever has happened has happened, but then new two-wheelers customers, what I knew was before demonetization around 35-36 out of every 100 would offer financing. Has that number changed?
- Rajeev Jain:** Okay, we are back to pre-demonetization in all means and forms, cash is back, the way clients used to behave, everything is back to normal. May not like to hear that but that is the truth.
- Moderator:** Thank you. The next question is from the line of Aadesh Mehta from Ambit Capital. Please go ahead.
- Aadesh Mehta:** Sir, you mentioned that in certain segments, due to competitive intensity there could be irrational exuberance. So what segments could this be?
- Rajeev Jain:** Let me make a point wherever people see NIMs in excess of 7-8%, they will say they want to do that business, let me use a rule of thumb, any business in excess of 15-16% IRR people say, look, very interesting, not realizing that higher margin business also has higher cost, whether in terms of operating cost structure or loan loss from a risk management standpoint. So you will see greater exuberance there, you will see it in mortgages because just the size of the pool is very large, but the mortgages we are already seeing for the last 3-4-years, technically at 8.35% or 8.45% that is the rate at which a AAA customer is getting money from banks, that is the rate at which I could take Rs.80 lakhs home loan. I do not think the cost of acquiring me versus cost of acquiring Bajaj Finance are same. That is irrational exuberance quite honestly.
- Aadesh Mehta:** So sir, you have been a veteran in Retail Lending. So sir, given your experience in this segment, do you think that we are at the peak of the Retail cycle right now that competitive intensity will only increase and your credit costs have already bottomed out and can only rise in future?

Rajeev Jain:

Answer is yes. When I say answer is yes, is that a likely scenario from a direction standpoint that the competitive intensity will increase which if we do not do anything about, we will see margin dilution which if we do not do something about, we will see loan loss rise. As I mentioned earlier to another investor, that fundamentally we think greater granularity in the portfolio can mitigate some part of it. We are finding ways and means to take out costs or generate greater velocity in a differentiated manner will take out cost. As we publish our 'Annual Report' which we have just signed today, you will see that the dealer incentive line on YoY basis has gone down by Rs.90 crores in absolute whereas the balance sheet has grown by 36%. This is the point. Now, Rs.100 crores got added. Now there is to some extent increase in because we added more people to do direct to customer. But even adjusted for that is Rs.60 crores sale. I am not even talking about lower churn because these customers then close looped, I mean, it is a ring-fenced customer versus distributor customer. We will continue to identify opportunities to make our portfolio more granular, to optimize costs out, and to create less and less friction in our engagement with the customer so that we remain a preferred lender. A preferred lender, I want to make important point. Everybody wants to be a preferred lender. The benefit of preferred lender is that the good customer wants to deal with it. If your processes are weak, if you take longer to process, then the worst customer is with you. So it is integral to the risk management strategy that we create less and less friction in our engagement with our clients, I will just give one example of that, Re.1 crore loans we did last year, 60 lakhs customers are repurchase customers. These 60 lakhs customers essentially have distinctively lower cost, distinctively lower loan loss versus 40 lakhs. Somebody could argue in a very clinical manner do not acquire this 40 lakhs. But I am a growth company. I need this 4 million customers because out of this 4 million, will emerge 3.5 million good customers for future. The good point is that as the management we are seized of the point that I am making and we are continuing to act in that direction.

Moderator:

Thank you. The next question is from the line of Megha Hariramani from Pi Square Investments. Please go ahead.

Megha Hariramani:

But just to understand where the next leg of growth you expect to see from... which segment will be very robust from your own for next two to three years?

Rajeev Jain:

Across all 18 lines other than Infra. I am not seeing that we have reached in any of our lines of businesses anywhere close to our destination in terms of where our penetration this could be. Let me also make a point that the 20 million franchise fundamentally represents between 3.5 to 3.7 lakhs crores of mortgages, represents Rs.130,000 crores of personal loans. So in a way if I stop doing anything and just started to focus much more deeply, much more doggedly, behind our 11 million best customers that we have, I think we will see growth across. So, we are quite excited about all the lines of our businesses other than the Infra business. But if I leave the generality behind for a moment I would say I am personally much more excited about the rural business, it is a young business, we have invested four years in the business, you may see significant expansion and acceleration in the business, all products that we offer in the urban market in rural market, we have a reasonable footprint, we have invested very deep in risk and

collections to be able to manage growth in that business, our experience over four years has been reasonably good. I would say I am much more excited amongst all lines, I am excited about all of them, but I would say rural could be potentially faster among the fast in the fast lane.

Megha Hariramani: Is it not like every MFI company more focused on rural like there would be quite a lot of competition developing on that side?

Rajeev Jain: So we continue to focus on mass affluent whether rural or urban, semi-urban, we do not want to deal with mass or below mass customer, we are very clear. So MFI customer is not my customer. Since you raised the point on MFI, if you see rural business, the portfolio which is current in 99.19 whereas all MFIs for whatever I am seeing from published data are reporting structural issues in their portfolio post demonetization. You are not seeing that here, right. But on the other hand you are seeing in our Two-wheelers portfolio because the customers there I deal with and the customers here I deal with is much more closer. So you see for the same geography you can have very different outcome depending on the customer segment that you are dealing with. That is not the pace that we are in any given manner anywhere close to.

Megha Hariramani: Do we expect our overall margins to go higher from here on and if yes, then what is our target?

Rajeev Jain: It is a record... we have delivered 21.6% return on equity in the year that went by, it is the highest in the last four years. So we have remained in a corridor of 19.5% to 20.5% even in the last six, this year has been a record high and if we did not have demonetization, we would have probably seen it go past 22.5%. I do not think you are going to see that rise from here, but I keep saying, 18% floor ROE and 20% ...there is no ceiling but in general the corridor of 18% to 20% is really where we remain anchored on, this year has been a good year for us from that standpoint.

Moderator: Thank you. The next question is from the line of Nishchint Chawathe from Kotak Securities. Please go ahead.

Nishchint Chawathe: Just looking at margins, I think this time it appears that quarter-on-quarter swing in margins, typically third quarter is strong, fourth is weak, I think when I compare it this year versus some of the previous years, it looks like the swing was possibly the lowest. A) Is my observation right and what are we really kind of seeing in the underlying trends in the business, Q4 typically drops, so the drop in Q4 this year versus Q3 was much lower?

Sandeep Jain: Nishchint, the point is you are looking at sequential numbers. Q3 was not that great on Consumer Electronics which meant that the margin did not go up as significantly as it has gone in past. That is the correlation that...

Rajeev Jain: Sandeep is making a reverse point, Nishchint; he is saying Q4 to Q3 is lower.

Sandeep Jain: Q3 to Q4 drop is lower versus period.

- Rajeev Jain:** Sandeep is saying correct. It has been reverse for us because of demonetization in Q3. Demonetization on one hand and the credit actions that we took in Q3. Both delivered 36% growth whereas if you see technically if you take out the Rs.70 crores number, we have come in at 53-54% growth. So volume momentum is back. Second, over the last four months, we have worked very aggressively with all our banking partners and everywhere we have now transitioned to six months MCLR or maximum to one year MCLR. So we have actually seen 50 basis movement drop in our cost of funds in our 37% borrowing, 50-60 basis points in the last four months. So that is a second order impact that has happened. I would say 99% of our banking relationships today have all transitioned to three months, six months or one year MCLR which has led to 50-60 basis points drop.
- Nishchint Chawathe:** So when I am looking at the next year forecast, I think the broad trend about first and third quarter being strong and second and fourth, I think that business trend per se does not change, right?
- Rajeev Jain:** Yes, that remains. This is more of event in Q3 and event in Q4. One negative event and another positive event is causing. The seasonality do not play through to respond to give a question.
- Nishchint Chawathe:** No, Personal Loans cross-sell, it has grown by like 60% and that is almost like 10% of the loan book. Obviously you have already put your credit filters in place. Is it like the most profitable business for you?
- Rajeev Jain:** Now what I do is I give you all the P&L.
- Nishchint Chawathe:** The last point was you guided that your LAP business will kind of start picking up in next two to three quarters. So maybe some color as to why do you think like that?
- Rajeev Jain:** Let me respond little differently to say to you that Consumer businesses, Rural businesses, Commercial businesses are out of the woods from demonetization standpoint, right. SME businesses will still take one or two more quarters probably from two to three quarters from credit quality standpoint and one or two quarters from growth standpoint is what I would say, Nishchint. We are watching the trends. We are not out of the woods on the SME business as yet. So it is difficult to even guide I would argue. You see professional loans growing there by 56, because doctors were not impacted. We have launched a new line of business called "Engineers," that has been a needle in a haystack, but we have been at it for the last eight-nine months, we think we have some answers. So they are not SME, especially the professional loans sit here essentially I could argue mostly doctors, they were not impacted. Rest of them you see, 30% growth, 1%, 17% and 19%. It will take some time. From volume momentum, maybe by second quarter. Credit quality out of woods by third quarter.
- Nishchint Chawathe:** This was on Lifestyle Financing. I know you touched upon it, but if you could just elaborate a little bit as to why did it turn yellow this quarter?

- Rajeev Jain:** No, nothing, basically as I said, Tier-2 markets, as you are expanding furniture, we found that there were instances of fraud by the retailer because they are not as organized and not as exposed and they thought they could get away with the lender, what I mean is that they could cheat the lender out and make some money... they did make some, that is how the circle has turned yellow. But otherwise, we are very excited. I think it is a four-year old business, like the way we saw a blip in the CD business, it is a blip that in the current quarter should be out of woods, we are already seeing when I look at the restraint, in February-March, what comes in a loss, they are back to even pre-September levels, so we acted and we are seeing impact of it.
- Nishchint Chawathe:** Because of pure numbers per se, it does not really indicate that there is any weakness in terms of the collection numbers that you put out?
- Rajeev Jain:** Base is very small, right, we are doing only 21,000-22,000 accounts in that, it is 45,000-50,000, so I would not worry about it, in fact, it is a very exciting business. As I mentioned earlier, we have launched "Life Care Financing" where you could use your EMI card to do elective surgeries and elective procedures, we have 2500 distribution points that we have created over the last 15-months of hard work, that is going to play out positively in the current year we think.
- Moderator:** Thank you. The next question is from the line of Deepinder Bhatia from Bayard Asset Management. Please go ahead.
- Deepinder Bhatia:** Just a couple of questions for you; first one is long-term observers of the Indian banking finance industry can say you are the original disruptor in some ways bringing scalable technology, risk management systems and gaining very quality market share over the last 10-years and more. I am just curious that what are you currently seeing? Fin Tech has become the buzz word of the day. I am sure you are working internally to think of other products, ideas to both play offense and defense in the Fin Tech space. I am just trying to understand the broader picture, what would be your approach ...are you looking to make any acquisitions of any start-up like potential new fin tech players who may be coming in the space, are you observing any with particular special interest as opportunities or risks or are you internally coming up with your own ideas in your LAP so to speak that will be able to operate in the space going forward?
- Rajeev Jain:** So the answer to all of it is yes, we are in general very transparent, I believe that execution is more important than strategy. So I generally like to talk about what we are up to but in this case I would say to you there are two-three big things that we are working on, but I am unfortunately not able to talk about them. What I can just tell you however is that how do we deliver more and more friction-less purchase experience for our customers is paramount in our internal working or our strategy if I could use the word. Out of 10 million loans, 6 million were existing customers. Instead of 6 million, 8 million were existing customers. We would generate greater profitability, lower loan loss and provision. So I think that is our line of thought how to create less and less friction in the way customers purchase from us. You will hear from us on

this in the next 60-days time, there are potential things that we are working on which I would say you should hear.

Deepinder Bhatia: That leads me to the second question, actually the last point you touched on which is mining your existing base more deeply. I just want to turn to Slide #12 and then Slide #40 respectively. If you could just help us reconcile the data on Slide #12 and Slide #40 just to alert you in case it is not in front of you, that is the customer franchise pyramid and then the Page #40 is the product per customer table. So can you just explain on the one hand on Page #40 you are saying what the number of transaction touch points have been with your customer over the trailing 12-months and various time period. This inverted pyramid over here is basically saying if I understand correctly the 11 million customers that is a very bottom end, that plausibly can be cross-sold by you. Is that correct understanding?

Rajeev Jain: Yes, that is absolutely correct. So in a way on this 11 million the PBT would be higher. I am just trying to validate that from my EA, this is on entire franchise, right. On the 11 million, the penetration rate would be higher. So I still want to double check it but he is confirming to me that the response is correct. So the entire focus is on the 11 million clients. How do we more and more and more with them?

Deepinder Bhatia: Then we look at the bar below that which is the blue bar Q4 Rs.956 million. So what is the exact number?

Rajeev Jain: What we are trying to say is that despite the fact that we have deep cross-sell orientation, we continue to be a young company seeking new clients. So in Q1, 2, 3, 4, if you added 11 lakh plus 8 which is 20, 33 and 9. 4.06 million new customers came on to the franchise.

Deepinder Bhatia: That is the difference between 16.07 and 20.13 at the top of the pyramid?

Rajeev Jain: Absolutely, and then the order fall established based on what are risks or segmentation approach sale.

Deepinder Bhatia: Just on this issue, from time-to-time, we hear in various markets around the world including here in the US with the most pre-eminent bank in the country, some of the ills of cross-selling that have emerged from time-to-time, I am just trying to understand how you guard against your frontline sales force indulging or feeling the pressure to go into that cross-selling pressure, how do you make sure that those kind of ills do not emerge?

Rajeev Jain: I will give one answer, because we have practiced, we have stated to the regulator in the past. If you sell a product, let us take an insurance product, okay, we sell a lot of insurance, whether extended warranties or life insurance. If you sell insurance, you get x right for a moment. Whereas if you mis-sell, it is a 3x penalty and we watch that metric very closely and we are brutal about it. So one if you do right but if three if you do wrong. When I read about Wells Fargo, I understand the point and the point that being made is correct that let it not become

systemic, let it not become behaviorally oriented that way, we are very cognizant a bit not because it is happening to Wells Fargo, in fact, the bigger incident that most people are not talking about is the PPA impact that UK has taken, numbers that in excess of £43 billion is the total impact, total revenue is £55 billion if you go back into. So we are very cognizant and we know that it is a great thing if done right and a terrible thing if done wrong. So we are conscious of it, Deepinder, is all I can tell you or I could say very conscious of it.

Deepinder Bhatia:

On Page #42 of the ALM strategy, just wanted to get your thought with rates having come off as they have over the last time period. Just curious, how should we expect this pie to change in any particular way the burrowing side, I am looking at the pie on the upper half of Page #42 which per chance is marked as page #2, but is between Page #41 and #43, how do you expect this pie over the next year or so to change in any particular way given the new rate environment that we are seeing?

Rajeev Jain:

What is not here and I would add to it is in the pie is that you are likely to see retail deposits grow. We now are originating retail deposits fully loaded post-SLR at lower than bank borrowings. We think that 8% number in the current year could grow to 11-12%. We are investing in various channels to accelerate that and we think that number in four-five year horizon could get to 20-22% from the current 8%. That ensures that we have diversified further, that ensures that the liability side of the balance sheet does not impact in any given manner the asset side growth momentum, that ensures that we continue to structurally work on bringing down our cost of fund. The company will look up to on this is HDFC Limited, it has 34% or 36% of its total borrowing book come from the deposits. We are at 8% and I am still telling you that we are looking at 20-22% number in four-to-five year horizon. But I can even do this today, Deepinder. But do we need at higher price means, there are no takers for it in the asset side of the balance sheet. I have to do it at same cost or lower cost. We now are doing is that lower cost than bank deposits which means that the business has the hunting license to ward and grow those pool of liability and you will see momentum in that in the current fiscal as well.

Moderator:

Thank you. The next question is from the line of Sameer Kulkarni from Vantage Securities. Please go ahead.

Sameer Kulkarni:

Can you elaborate on BFL 2.0 strategy and how do you see the benefits of it coming over the next two-to-three years?

Rajeev Jain:

It should ensure that despite intense competitive activity that I am talking about that is likely to emerge that we can keep our head above water and continue to deliver 25% balance sheet and 20% net income. Through this period, if people do not build long-term businesses on competitors, some of the money that we will chase this business as they go out of business in I foresee in three years' time than those who are left will generate disproportionate profit pool. So there are two sides to it – It is a defensive strategy in short-term and it is offensive strategy from 4-5 years horizon. This drama will go on for two-to-three years at least.

- Sameer Kulkarni:** You are doing more work on analytical and technology side. So can you elaborate what are the newer technological or analytical works you are doing and what will be the impact on business on that?
- Rajeev Jain:** While Rakesh is here, our single-minded focus on using technology and analytics is to create less and less friction is the single limited obsession that we are working with improve customer experience, is really on that we are doing. How to you use analytics to make it easier for customers to get money from us? How to use technology to make it easier for him to pay to us? How to make it easier to create multi-channel models with as similar experience as possible? That is really what we are trying to do in using technology analytics, and as we could use the word "Risk". Technology and analytics eventually is extremely important but you need to be very clear about your risk. When I say Risk means Risk Management Principles and Risk Management Strategy. On top of it comes technology and analytics that gives you the means enable you, as Rakesh is saying, to ward and when in the marketplace. So that is really what we are up to if I could simplify that.
- Moderator:** Thank you. The next question is from the line of Umang Shah from Emkay Global. Please go ahead.
- Umang Shah:** I just needed two data points: The provision coverage ratio that we have reported that includes this Rs.70 crores provision that we have made?
- Rajeev Jain:** It does not include because most of it is going and sitting in general provision.
- Umang Shah:** So what would be our outstanding general provision pool as on date?
- Sandeep Jain:** Close to about Rs.300 crores.
- Umang Shah:** So this Rs.300 crores is over and above the 74% provision cover that we have?
- Rajeev Jain:** The account flows into delinquency. We cannot add that. Rs. 300 crores is including GP.
- Moderator:** Ladies and Gentlemen, that was the last question. I would now like to hand the conference over to Karan Singh for his closing comments.
- 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 for joining us on the call today. Thank you and good bye.
- Rajeev Jain:** Thank you all for patient hearing.
- Moderator:** Ladies and gentlemen, with that we conclude today's conference. Thank you for joining us and you may now disconnect your lines.