



“Bajaj Finance Q4 FY19 Earnings Conference Call”

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

Moderator: Ladies and gentlemen good day and welcome to the Bajaj Finance Q4 FY19 Earnings 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, 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. Thank you and over to you sir.

Karan Singh: Thank you. Good evening everybody and welcome to Bajaj Finance's Earnings Call to discuss the 4th Quarter FY19 results. To discuss the results, we have on the call Mr. Rajeev Jain — Managing Director, Mr. Sandeep Jain — Chief Financial Officer, Mr. Atul Jain — CEO, Bajaj Housing Finance and Mr. Anup Saha — President (Consumer Business)

May I request Mr. Rajeev Jain to take us through the financial highlight after which we can open the floor for Q&A session. Over to you sir.

Rajeev Jain: Thank you Karan. I also have another colleague of mine, Deepak Bagati, who runs the SME business and collections for us. Good afternoon everyone. I will be referring to the investor presentation which has been uploaded on the investors section of our website.

We can jump straight to panel #15 to see how Q4 FY19 has been for the company. Overall, it's been a pretty strong quarter for the company to finish the full fiscal 2018-19. As of 31st March, customer franchise was up by 32% YoY to 34.5 million customers. A year ago, we were a 26.22 million customers company. During the quarter, which, in general is a soft quarter, the Company added close to 2 million new customers. In terms of new loans booked, we were up 50%. We booked 5.8 million loans in Q4 FY19. Existing customer contribution, which continues to be the main engine to drive growth and ensure risk remains steady, was at 67% of new loans booked. So out of 6 million loans about 4 million loans came in from existing customers.

Assets under management grew by 41% and came in at 1,16,000 crores. In the liquidity crisis period, company has added close to 17,500 crores of net assets in between September '18 to March'19. Net interest income grew 50%. Operating expenses to Net Interest Income ratio came in at 34.5% from 39.5% a year ago. Loan losses and provisions grew from 227 crores to 409 crores in Q4 FY19.

As a result of various metrics that i talked to you about, PAT came in at 1,176 Crores at a growth of 57%. ROA stands very steady at 4.2% and ROE at 22.5%. Standard asset provisioning remained steady between 85 and 87 basis points, For Full year it came in at 97, and for Quarter 4 at 85 basis points. Capital adequacy ratio (including Tier II capital) stood at 20.66% as of 31 Mar 2019. The Tier I capital stood at 16.27% We have burnt approximately 40 basis points of capital in Q4. Deposit business grew by 69%, ended with 13,193 crores of deposit book. Deposits contributed to 13% of the consolidated borrowings and on standalone basis contributed 15%.

In terms of growth across different business categories, B2B business grew 41%, B2C business grew 49%, rural lending grew 69%, SME grew 38%, loans against securities shrunk by 6%, commercial lending grew 37% and mortgages grew 43%. So overall growth was pretty granular, and came in at 41%. The credit card in force came in at 1.05 million as of March 31. EMI card franchise came in at 19 million and of those 8.5 million customers are on the wallet. That's the second piece of information to share.

In terms of third piece of information Bajaj Housing Finance, it has completed its first full year of operation. It ended the year with 17,600 crores of assets, NII came in at 471 crores. Company generated a PBT of 149 crores and PAT of 110 crores, which came in with 1.1% return on assets. We infused 1,000 crores of additional capital in Bajaj Housing Finance on March 20th and that's why you see ROE to be low. In general, we are quite pleased with the progress the mortgage company is making. Our aim is to go out and build a dominant mortgage lending business in this country over the next few years.

In terms of non-financial commentary, the company received a global standalone investment rating of BBB - from S&P for its ECB program which makes us one of the very few companies to receive this rating. We should be all set to complete the documentation and paperwork by 31st of May and depending on the market situation we intend to raise, in the current fiscal, the entire 750 million that we are allowed to raise under automatic route.

For Bajaj Housing Finance, as I said we are quite happy with the progress, it will further continue to optimize its cost metrics.; company continue to focus on granularity of portfolio across products and geographies majorly for two purposes – augment profitability and to reduce risk. As you can see it is reflected through better margins, lower operating costs and better risk metrics. Portfolio quality remained at record best adjusted for IL&FS, if not for IL&FS exposure on a year-on-year basis. Net NPA would have been flat and gross NPA would have gone down by 8-9 basis points.

In general, as a company, we are quite comfortable with our risk stance at this point of time which allows us to take a stronger view on growth. ALM continues to be managed well across banks, bond market and deposits. We at this point in time remain very well-placed. Company is sitting on close to 7000 crores of cash and cash equivalents right now.

The partnership with RBL continues to grow and crossed the million cards in force mark.

On Bajaj Financial Securities, we are all set to go live with the broking and the DP business. In first phase we will offer it to our loans against securities clients. We will launch the business by 15th of June.

So that's really on the financials and non-financial commentary. I just want to take two more minutes, after that we can open for questions.

We have released for the first time, as I had promised few people that we will start to talk about comparative activity in the retail lending i.e. our stance on the overall leverage for a client. So, we have published a small note on that which is on Slide #50, #51 and #52. It essentially covers the unsecured leverage of our client with us and in the industry. So, it's a simple note that's being published on panel #50, #51 and #52. If there are any questions I will be happy to take. In general, we have also given the methodology and our analysis of the same on panel #50 and we have also provided the management assessment in terms of color. So that's for you to look at otherwise steady quarter and looking forward to the next fiscal. We are happy to take questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Praful Kumar from Pinpoint Asset Management.

Praful Kumar: In terms of the backdrop that we are seeing in terms of significant slowdown in consumption, both discretionary and non-discretionary. How do you look at maintaining the growth momentum for the next couple of years? And second question is on credit cards, are you looking at any further tie-ups with larger banks on the credit card side or launching your own credit card if the permission comes through?

Rajeev Jain: In general, I would say consumption outlook does seem slower than it was till November. So, it's slower and it's also very patchy. If you would have asked the electronic retailers in April about how is their expectations entering the year, they would have said very good. Now if You ask them in May they will be saying it's very weak. So that's what I mean by patchy. Aggregated it may be slow if you aggregate April to today on 16th of May. Our view on growth has always been category expansion, geographic expansion and share of wallet of our client. These three have continued to drive our growth and quality of our franchise. That stance does not change. Importantly, I must make a point that 35 million customers represent one of the largest retail franchises in the country and our share of wallet of our clients remains very low by any yardstick. You take it for personal loans, credit cards, mortgages, used autos, even B2B exposures because they are completed now very quickly. So, I think the opportunity remains very large. We continue to invest very deep in risk infrastructure, analytics, geographies to improve understanding of our client and create opportunities to grow our wallet. So that's on point one. On Credit cards, globally it's common for companies to work with multiple partners. I'm not saying we are going out and doing it right now. I'm just saying to you what in general happens in the industry globally. With One million cards in force in 2 years, we are very happy with RBL as a partner; we are growing rapidly. I can't predict in short-term but In long-term it's possible we may have one more partner given our ambition to be among the top 3-4 card issuers in India in the next 5 years horizon.

Moderator: The next question is from the line of Kuntal Shah from Oak Lane Capital.

Kuntal Shah: My question refers to Rajeev- You mentioned you wanted to build out domain and mortgage business. Already if you combine the mortgages on the book of Bajaj and the subsidiary it's almost 34,000 crores. So what scale would you consider spinning of the mortgage business

separately and can you guide us on the texture of what kind of ROA-ROE profile you are targeting because right now the cost to income ratios are very high? Second question is on the ECB front, what is the indicative fully hedged cost you are expecting given the current borrowing environment? And third question would that since you have a positive ALM and your competitors are struggling to lend, they are not open for business, are you witnessing a tangible market share gain opportunity in selected pockets in selected businesses?

Rajeev Jain:

So, mortgage Kuntal, there are 34,000 crores of assets, 17,000 crores of assets are sitting in standalone balance sheet. That's in the winding down mode and another 17,000 are sitting in BHFL. We foresee that the 17,200 crores of assets that are sitting in BFL will wind down fully by March '21. When we look at the business We look at the aggregate 34,000 crores balance sheet. So when you are looking at OPEX to NIM you are looking at only 17,000 Crores so in a way you should halve the cost. because for the 17,000 Crores sitting in BFL books there is no cost sitting in BFL. The BHFL is the servicing manager of the entire portfolio of 34,000 crores so in a way they charge small fees to manage. Having said that the cost to income ratios for the mortgage business which is BHFL or the aggregated portfolio is still higher by a mile versus industry. On cost we have acted wherever we had to do. It is now scale that will really take care of for improvement in cost to income. So that's the second part. Industry is around 21 lakh crores of mortgages, all the entire mortgage balances outstanding. We are 32,000 crores. So that's 1.5% of market share. If you are not anywhere between 8% to 10% of the market in the next few years' time, it's not meaningful to be in this business. But we are not in a hurry, we think that mortgage business is an ALM business rather than asset business. We will build it out steadily over the next few years. So that's on mortgage. I hope I have answered your question. On ROE I have always guided Kuntal that 14% to 15% return on equity with 8 to 9 times gearing is really what we think without getting into crisis is the rightful business. A year ago or two people used to ask me, people deliver 20% ROE in the mortgage business and I would always say that numbers don't add up on excel for me. So it's playing out what we thought was a difficult thing to do any which way. So, 14% to 15% ROE is steady, not getting into shock zones and 8 to 9 times gearing is what we think a mortgage business should be able to deliver. For Question two on ECB - we were on a non-deal road show a month ago. Hedging costs were very different then, hedging costs are different now. So, it's very difficult to state at this point in time as to what the fully loaded cost is likely to be. It's LIBOR plus a variable factor, we will do fully hedged that we are clear. RBI says you can do up to 70%, we will do fully hedged. We will do both principal and interest. We will do 3 years/5 years, we will do loan/bond. We expect to be lower than what our fully loaded cost today is. That's our expectation. But it's all governed by market conditions. So that's point two. On point three, market share gains, managing the 40% growth itself is not easy, doesn't give us time to think about market share gains I must confess. Having said that, it is a place where we are materially seeing gains and I have always said that we essentially compete with leading private-sector banks in terms of customer segmentation and they haven't slowed down. So, to that extent competitive activity for us as a company has not slowdown in any given manner, whether for BFL or for BHFL. The only place where you are seeing market share gains I would say is the auto finance business. In auto finance business we have seen that our market share of Bajaj Auto sales which used to be 30% to 34% has actually gone to 42% to 44%. Clearly

since September we have seen competitive activity reduced at counters and we have been there to gain market share. Other than that we haven't seen reduction in competitive activity as a company.

Kuntal Shah: Rajeev RBI is allowing the dollar swaps to lot of corporates, so still in spite of that the hedging costs are high?

Rajeev Jain: Yes, they continued to be what they are. As I said they were much lower when the swap was announced. It went up; it's again rallied in the last 2-3 days. This conversation will be material when you are very close to raise. But we are committed that it's a diversification of our liability profile, if it came in at a higher cost we wouldn't raise. We will raise at the right price at which we can deploy that money rather than generating liquidity.

Kuntal Shah: Have you considered ADR-GDR or a convertible kind of an offering in offshore market to raise both debt and equity going ahead whenever the opportunity arose?

Rajeev Jain: Yes I think we should.

Moderator: The next question is from the line of Kunal Shah from Edelweiss.

Kunal Shah: In terms of this new disclosure which is been there on the overall leverage risk assessment, so on the professional side if you look at it there is a jump of almost 25% to 30% odd over most of the vintage of the portfolio, so what would be the sense? And the other thing is this is only the unsecured exposure, if you can just give the sense in terms of the overall leverage which would have gone up on the salaried personal loans if you have access to the data and if you would have looked at it in terms of how is the overall customer leverage or maybe the household leverage going up maybe it is for the salaried personal loans during this vintage?

Rajeev Jain: Fundamentally Kunal the answer is that the data is available. The question is have we seen it, the answer is yes. But please understand that leverage assumes relevance and importance in an unsecured business because there is a multiple leverage as there is no asset underlying. In a mortgage business, it is difficult for a person to take two home loans because then he has to put 20% equity on each. So in general unless and until the world goes to the crisis that we went through in GFC where you didn't need equity to buy home which is not in way anywhere close in India. And the reason we put this out is because this is about managing risks. We see if at all there is a risk dimension and I had a set of analysts who are asking me for some time if we can share some insights on leverage of consumer given that lots of people are getting into unsecured space, we thought we will put it out in public domain. So we actually went and talked to CIBIL, you want any analysis it ought be actionable and I will just come to professional loans is actually relevant for this entire panel, when I cut the same panel whether professional loans or any of these, you will actually see the top 15 cities in India. See this is aggregate, this is for 1830 cities for our customers. When I cut these panels by top 15 cities then number looks very different, looks much more pronounced. When I cut it from 15 to 35 less pronounce, 35 to 75 less

pronounce, 75 to 120 less pronounce, for 120+ it will look flat or it will lower. Now actionability is coming back to professional loans where you see that the top 8 cities represent highest risk. So, then you act on the top 8 cities in India. That's really what you do. So, this is not just for analytical purposes, it's for action from a risk standpoint to ensure that you don't land up leveraging clients or lending to clients with leverage. Does that answer your question?

Kunal Shah: Yes, and in terms of our exposure to this category would be how much?

Rajeev Jain: So, our average exposure—actually it's an important point—has actually reduced across each one of this. So if I gave a loan 2 years ago to professional loans, my average loan used to be 11, 63,000, 2 years ago same graph zero month. Today same type customer I give 11,18,000. So over 2 years nominal GDP that customers income has gone up by 24% as you said, 12% nominal GDP, my loan is actually gone down. Now this is aggregate loan having gone down. If I go to 15 cities the drop may not be that significant but on an aggregate down by 6% or 11.18 by 11.63, down by 4% on an aggregate but may look differently so then what would one do. One would go to top 8 or top 15 wherever one is seeing. If I take business loans as an example my aggregate exposure 2 years ago used to be 16, 46,000, today it is 7.18 lakh. Now that's the kind of granularity that we have been working on If I took further 2 years behind, business loans number used to be 21-22 lakhs. 22 lakhs went to 16.5 lakhs, it's today at 7.1 it. So it's granularity both ways.

Kunal Shah: And on business loans, any cut we look at on the overall number seems to be very comfortable. That leverage has not gone up but any cuts the way you highlighted in terms of professional loans across the geographies

Rajeev Jain: We continue to add Kunal across all these five areas on an ongoing basis based on incoming risk data. So, this exercise run by us quarterly. Based on quarterly incoming data we act.

Kunal Shah: For loan against property this rate is primarily because of IL&FS?

Rajeev Jain: Yes, not primarily, mainly because of IL&FS.

Kunal Shah: Otherwise there is nothing?

Rajeev Jain: As you see below, we have said if adjusted for it, it would be 99.32.

Kunal Shah: In terms of the mortgages now it's almost 30% and you said that you would want to over a period increase it by 10%. So in terms of our composition of the book from 31st and how do we look at the overall mortgage pool in next 3 to 4 odd years?

Rajeev Jain: Between 36% to 38% is really where is our assessment is to deliver sum of part strategy of 3.3% to 3.5% return on assets and 18% to 20% return on equity.

Moderator: The next question is from the line of Umang Shah from HSBC.

- Umang Shah:** My question was regarding cost to income, so on a consolidated basis we have delivered about 35% cost to income which is probably the lowest that we have seen and as we speak you believe that there is still some scope for mortgages to go down in terms of cost to income. So, on a consolidated basis, is it fair to assume that the cost to income can go down further?
- Rajeev Jain:** Income can always go up, cost can always go down conceptually.
- Umang Shah:** But do you think realistically it can go down?
- Rajeev Jain:** Realistically, let me make a different point. We continue to look at opportunities to augment income and opportunities to cut expense. I think a reasonable driver of the OPEX to NIM has been income growth and work has been other than mortgages we are looking at all part of our businesses to manage our expenses right. There will be a year when both will fire. That will be a year where you could see OPEX to NIM further go down but in general you should see it's steady between 34.5% and 35.5%.
- Umang Shah:** The second question is, are there any thoughts in place regarding a banking license? our deposit franchise is going really well. We are about 15% of liabilities but given the scenario today is there even a thought process that probably we can look at acquisition of any of the banks? obviously we have a very strong currency in terms of our stock. Is there any thought process in place on these lines or no?
- Rajeev Jain:** I can't say no, I can't say yes. There seems to be a clear structural distortion in the sector and in general, from whatever I read in public domain, Two important pillars of the financial system seem to be going through distortion. I won't say crisis, I am using the word distortion. There is distortion in both these pillars of financial system. They should get fixed in the short term actions which are for short-term and for the long-term by reforms. As we navigate through this we will continue to evaluate whether it's appropriate to think about bank. I am not even saying convert into a bank I am saying think about a bank. It this a fair question, yes, do I as a management or with shareholders do have a point of view on this at this point of time, no. But it is a relevant question to ask, yes. I tried to respond as diplomatically as I can.
- Umang Shah:** Last question was on leverage risk methodology. We have shown for about 5 to 6 business lines, how the leverage has moved over the past 2 years. Obviously, we are comparing this with the nominal GDP growth rate but obviously all these business lines would have more nuances under them and I am sure you guys would have run those screeners as well. Based on that, is there any segment where you see where there could be any potential risks or are there any catalysts that one should be looking out for?
- Rajeev Jain:** Top 8-10 cities continue to represent much higher risk than rest of India.
- Umang Shah:** Is it Across segments? I mean be personal loans or business loans?

- Rajeev Jain:** In general. We represent a very large opportunity but at marginal income, marginal OPEX and less than or more than higher loss. So, it's marginal at one level.
- Umang Shah:** As a corollary our rural business will probably continue to show much faster growth compared to?
- Rajeev Jain:** Yes, I would say for Tier-II(top 35 cities plus) we will continue to accelerate our growth momentum and we are very comfortable with our stand on volume, growth, risk, everything.
- Moderator:** The next question is from the line of Sandeep Jain from Birla Sun Life.
- Sandeep Jain:** Just before this leverage risk assessment, on the slide #5, #6 we mentioned that 67% of the new loan book is the new customer and here we are saying that our leverage on the existing portfolios is increasing].So where are we comfortable or I am just reading too much in between the line on the overlap and all?
- Rajeev Jain:** On panel #15, 67% our loans booked are existing customers. Majority of them are B2B customers which means you take a television today and on an average in 8 months you pay them down then you take another loan. In general, if you are a low-risk customer we may approach you today or may be 3 months down the line and if you are a high-risk customer, I will wait for you to complete your loan. B2B discretionary consumption in general does not represent the leverage risk in general. There are pockets of leverage risk that happens but does not represent leverage risk. Leverage risk essentially is represented only in unsecured portfolios where you take money today and you pay over a period of 36 months., For example you're a doctor and I lend you Rs. 11,18,000 today which is an average loan size. You service that over a period of 2 years and then you are unable to service so I will not give you money, you could go to somebody else and take money and that's why leverage risk is important there. That's why unsecured portfolios represent rightful conversation on the leverage risk and not discretionary B2B consumption.
- Sandeep Jain:** In that 67% majority would be on what business?
- Rajeev Jain:** 95%-96% of these loans would be B2B and on that only 10% end up taking personal loans
- Moderator:** The next question is from the line of Manish Ostwal from Nirmal Bang.
- Manish Ostwal:** What is the incremental cost of fund during the quarter?
- Rajeev Jain:** What we have shared is the consolidated cost which is on slide #27 and is stands at 8.3%on March '19 at. It was 8.2% in December it's 8.3% consolidated in March '19. We continue to raise money at attractive rates in CB market, down market. We just dropped deposit rate by 50 basis points effective 5th of May. The price at which we raised CP is in public domain, price at which we rate NCD is in public domain. In March we would have raised close to 3000 crores in 3 year and 5 year monies in Bajaj Finance on a standalone basis between 8.5% to 8.6%.

- Manish Ostwal:** On the SME loan book, some of the peer bank commented that the quality trend and credit quality of that portfolio is deteriorating in terms of payments, so what is the status at Bajaj Finance of SME book?
- Rajeev Jain:** SME remained in general one of the most volatile categories, there is no question about it since demonetization both SMEs and micro-SMEs have continued to struggle. In general, we deal with micro-SMEs across 600 cities across India. On panel #44, if you see a year ago the current client was 98.68 and now on March '19 ending they are at 98.75. But in general, I would say that we are quite okay at this moment but they remain more volatile than other segments. So, we will watch them carefully and act in an agile manner to manage this portfolio. If you see on the panel, 2 years ago, we were at 98.68, and a year ago we were exactly at 98.68. Today we are at 98.75. For Markets like Delhi, , our overall balance sheet has grown 50% over past 2 years but Delhi market contribution in that on an absolute basis gone down by 20%. Out of top 40 markets in India 15 would be in what we call early warning markets primarily in business loan space. That's how volatile this space is. We continue to watch and manage it carefully.
- Manish Ostwal:** Any assessment of the increase in credit cost because of this thing, in FY20 for Bajaj Finance?
- Rajeev Jain:** If I look at SME portfolio over a 12-year horizon, that's really how long you have done this business. Credit cost (loan loss to AR) used to be 100 points. It went to 130 and at the peak of demonetization it went to 230 basis points. Today it is at 200 basis points. As I said it's a tough to scale business so that we are clear that 100 was better than 200. As you start to scale this business it starts getting tougher as you scale you gravitate naturally towards more volatile end of the stick.
- Moderator:** The next question is from the line of Nischint Chavate from Kotak Securities.
- Nischint Chavate:** If I look at it consistently across Stage-I, Stage-2 and Stage-3 your overall coverages have been improving. What does this really mean in terms of the asset quality behavior, given the fact that we are now able to highlight some red flag in some segments I know you have been obviously doing a better job in terms of diversification but what does this particular trend mean and where does it take us?
- Rajeev Jain:** I will just make one comment only and then I will hand it over to Sandeep. We are seeing on an aggregate basis better portfolio entering the year exiting the year than we entered the year. We deployed the ECL methodology which Sandeep and risk analytics team worked on and that's why I will hand it over to Sandeep to respond. But on ECL basis entering the year to exiting the year, we are in a better position. I will ask Sandeep to continue...
- Sandeep Jain:** If you look at last 5 quarters data, the contribution of Stage-I and 2 to overall portfolios has consistently remained between 98.45% to 98.6% kind of corridor. The remaining portion is Stage-3 or NPA. In terms of coverage, consistently, for Stage 1 and Stage-2, the coverage has been in the corridor of 85 and 90 basis points, reduction in coverage means that the portfolio

performance has improved versus the previous periods. If you see March 2019 number the coverage on Stage 1 and 2 was 85 basis points versus previous quarter at 88 basis points. This means that there is a 3 basis points improvement in the expected loss on the portfolio as on 31 March, 2019. Simultaneously, if you look at Stage-3, which also includes IL&FS exposure as well as, the expected loss on this portfolio is 60% versus let's say September 2018, which did not have IL&FS NPA, was at 65%.

Nischint Chavate: In terms of trying to collaborate it with some of the industry trends on the early warning indicators that you are putting out. We could probably say that maybe these ratios tend to move up over the next 1 or 2 years because I guess this will start reflecting, if the industry trend is what it is. This might start really get reflecting may be in the Stage 1, Stage-2 numbers?

Sandeep Jain: Nischint, there are two variables in the entire model. One is the portfolio composition change which means whether your high EBITDA business in the company is going up or going down, that's one variable. Second, as you are rightly saying, if the market starts to witness rise in delinquencies on portfolio and let's say we also have some impact of it, that also will become visible in the ECL working. If you see the number inching up, it could mean that either the contribution of high Beta portfolio is going up or increase in delinquency is impacting the balance sheet.

Rajeev Jain: I shall make only one-point Nishchint, that we will continue to sharpen the pencil on improving risks. Now that's another dimension so it is not necessarily that as our balance sheet grows our loss should also grow, it need not and I want to emphasize on the second order point that Sandeep made. Just let me give you an example at a mortgage level we walked away from self-employed home loans in August and the volumes have not gone down which means it's essentially salaried home loans which continue to be at 99.97% current portfolio. Over a 24 months period there will be no self-employed home loans sitting in the balance sheet. I'm just giving you an example. So, for all parts of the business we are continuing to take a laser sharp view and using a scalpel to identify small pockets of blind spot and manage them in a diligent manner to keep taking risk out. So, it's more philosophical and Sandeep made a correct point that you are saying on how the panel #48 is moving.

Sandeep Jain: If we make any kind of material change in the assumptions used for ECL or any change in the calculation, we will try and ensure that we quantify and put it in the public domain, as also, if there is any change in methodology versus what we applied for the implementation of ECL.

Nischint Chavate: These ratios would possibly get reassessed every year or something?

Rajeev Jain: Yes, they are assessed every year.

Sandeep Jain: There is a process of complete refresh of the model on a year-on-year basis and at the mid-year we do revalidation of the model.

- Nischint Chavate:** Just on the business that you are getting from the existing customers, if in terms of contribution to disbursements if you could share a number?
- Rajeev Jain:** We have stopped giving Disbursement numbers
- Nischint Chavate:** Once your contribution to disbursements, I know the number of loans but I'm just saying in terms of what proportion is the business equity?
- Rajeev Jain:** Sandeep will share with you. We don't have it right away. We can give it to you.
- Nischint Chavate:** You can give it in terms of number of loans, I am saying in terms of numbers.
- Rajeev Jain:** We will share that. That's fine. Maybe we can disclose it next time onwards. As that metric 67% for loan and what is a valid contribution out to disbursements. That we can share.
- Nischint Chavate:** Any guidance that you could give in terms of the ratio of fee income to PBT going forward?
- Sandeep Jain:** We should be able to hold it at the current level or may be 50 basis points plus minus. This is what our current view is. Of course, Nischint what happens with the implementation of Ind-As is that, a lot of fee components which gets originated along with the loan gets amortized over the tenure of the loan so it becomes really difficult to reconcile it with this disclosure. While we can calculate that internally, it will become difficult for you to reconcile it with the numbers that will get published.
- Rajeev Jain:** Yes, in fact it's an important point since you are raising it, on panel #27 the yellow line that you see is going to be removed Nischint because as Sandeep says it is amortized over life of the loan. It's very difficult to even predict. I can always do it in the quarter & what does it mean over the life of the loan but it won't add up. The point Sandeep was making to me was that it won't add up to the financials that are published. There is a technical difficulty in being able to forecast this line as we move from here.
- Sandeep Jain:** And given that we are in a transitionary phase in terms of implementation of Ind-As, we thought it would be appropriate to make financials both in Indian GAAP as well as Ind-As. So far, it was easy for us to communicate this metric because we were also giving a reconciliation of profit. As we go along from here, we will not give reconciliation of Indian GAAP and Ind-As and these numbers anyways will not figure out anywhere in the financials.
- Nischint Chavate:** For This particular chart you have considered everything under I-GAAP and then done the reconciliation?
- Rajeev Jain:** That's correct because until March '18 everything was previous GAAP. In a way this is demonstrating our strategy. This is as much as the yellow line is showing up the number as it is demonstrating strategy. Now is there a change in strategy to the point Sandeep was making plus minus 50 basis points? No. Are we continuing to orient ourselves towards being a service

business? Yes, strategically. Publishing a number given Ind-As become technically difficult. That's all. We will try and see what can we share.

Sandeep Jain: Nischint last quarter you had a question on Fees and Commission income over and above what gets collected along with the loan. I think the new format of financials will give you all the information on the face of the P&L itself. The Fees and Commission number for 31st March quarter end stands at 493 crores versus last year number of 231 crores. So, there is significant increase that you will see in there in the current quarter. And similarly, on a full year basis 1680 crores is the number for current year whereas last year was about 800 crores.

Nischint Chavate: Even if you move to whichever accounting norm, if you are trying to look at it consistently the broad multiyear trend should not change.

Rajeev Jain: Yes, it will not change it will only increase, it will grow.

Moderator: The next question is from the line of Anand Laddha from HDFC Mutual Fund.

Anand Laddha: If I have to look at our ROA which has remained consistently at 4% over time. Now as we are going to increase the proportion of mortgage in the overall loan book, where do you think this ROA will settle down? What could be that range? And second question - if you can give some color on what proportion of premium we could have collected for Bajaj Life and for Bajaj General Insurance?

Rajeev Jain: In last year?

Anand Laddha: Yes.

Rajeev Jain: I don't remember, I don't have off-hand but I will give it to you. Let me respond meanwhile to your first question. Somebody was asking that what do we see the share of mortgage business to be and as I said I see it at 36%-38%. What do I see commercial to be between 12% and 15%. What I call our sum-of-parts strategy, gets fully developed and delivered, I foresee our ROA's to be steady in a very good year around 3.5% and in a normal year between 3.3% to 3.4% delivering 18% to 20% return on equity. that's how our sum-of-parts view remains. That has been so for the last few years; we don't see that changing and we will actually deliver in the next 2 to 3 years horizon. That is on ROA and in the process ROE, as I mentioned earlier, as the true risk in the mortgage business goes down we are okay to increase leverage all the way to 8.5-9 times and when the mortgage business goes out of BFL we will actually reduce the leverage in the BFL in general. So, net-net if the sum-of-parts get delivered we will go from 6 times to 7 times and continue to deliver a 19% to 21% return on equity. On the premiums for Bajaj Allianz Life and Bajaj Allianz General between Life company and the General company we work with 8 insurance companies between Life, Health and General the premium that we originated was in the range of around 800 odd crores. I don't have exact numbers but we can share that with you separately as well.

- Anand Laddha:** What could be this number last year so what sort of growth we could have achieved?
- Rajeev Jain:** Yes, very similar growth; if balance sheet is grown 40%-41% in general the growth would have been between 41% and 45%.
- Anand Laddha:** Is it Fair to say a large proportion of the 800 crores will be General Insurance, General plus Health?
- Rajeev Jain:** It will be both.
- Sandeep Jain:** Just a correction the number for the current year is 950 crores out of which 510 crores is BALIC and 400 odd crores is Bajaj Allianz General Insurance Company. Both segments have grown well in the current year.
- Anand Laddha:** If you can give some color on the developer segment, we have been looking at data on SME and secured personal loan. Do you look at the data for the developer segment? Where is the stress what sort of stress one can expect in general for the market?
- Rajeev Jain:** Total book is around 1200 crores at this point of time.
- Atul Jain:** BFL residual book is of around 500 crores and 700 crores book is in BHFL where from last 15 months we are acquiring. For General market, will not be able to provide an update because we are very small & we believe that the total developer finance market is 500,000 crores as per the published data. We constitute only 1200 crore, if we try to make a general market comment, that would be inappropriate given our completely insignificant or miniscule size in the developer finance market. We continue to work at the ticket sizes which we have listed out last time because we work on a granular portfolio. This 1200 crores represent close to 140 relationships on which we have on our outstanding. At a project level we generally do not sanction more than 45 to 50 odd crores and the average ticket size is around 25-30 crores and that's a strategy we intend to continue to focus on as we move forward for next 12 to 24 months.
- Rajeev Jain:** We are only present in 7-8 cities in India, we are not there in Northern India. We essentially are in Western India & south based sole lender. Our struggle has been to grow this balance sheet, we come in fundamentally at the plinth level. we are normally not the first lender to the transaction. Our average pricing is between 12.5 to 12.75 because we are coming in post all approvals at plinth, we are generally first level take out. As I said, we are a sole lender we see there is granularity in a sense that our exposures are small and our focus is on velocity. We are building developer finance business with the core objective of augmenting our Home Loan business which means we must get a fair share of the home loans that developer does. There is a strong metric focus on that which means if my average home loan exposure is between 50 to 60 lakhs, I am essentially focusing on 38 to 40 lakhs is our average exposure which means 50 to 60 lakhs is the value of a home.

- Atul Jain:** To put a metric outside Bombay and Bombay also when we say that is not new Bombay or MMR region, pure Bombay. Outside Bombay generally we do not take exposure in the project where the end unit price is above 75 lakhs on an average. So that it is a velocity driven product and we do not finance any transaction in the developer finance at the land stage.
- Rajeev Jain:** Does that give you color?
- Anand Laddha:** Perfect.
- Moderator:** The next question is from the line of Bhaskar Basu from Jefferies.
- Bhaskar Basu:** The (+30) days bucket in consumer lifestyle and digital has gone up on a sequential basis. Any specific reason or anything we should look at it?
- Rajeev Jain:** No, nothing 20-30 basis points. Goes up, goes down nothing to read into it at all.
- Bhaskar Basu:** Almost like 20 bps in lifestyle and 30 bps in digital.
- Rajeev Jain:** We are not observing anything materially, so your point is correct.
- Atul Jain:** One in lifestyle if you look at it this is a yearly phenomenon because these products are actually also seasonal products so you see a AR built up in the Quarter 3 because of a Diwali season then Quarter 4 generally there the ratio goes down, the AR goes down because there is an attrition in the AR so consequently there is a some bump up in the delinquency number what you reflect as a percentage while loss to sales holds steady. Lifestyle if you see that last March '18 also was the same number so that's where you can explain that.
- Moderator:** Thank you very much. We will take that as the last question. I would now like to hand the conference back to Karan Singh for closing comments.
- Karan Singh:** On behalf 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.
- Moderator:** Thank you very much. On behalf of JM Financial that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.