



## “Bajaj Finance Q2 FY13 Earnings Conference Call”

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**INSTITUTIONAL SECURITIES**

**Moderator** Ladies and gentlemen good day and welcome to the Q2 FY13 Earnings Conference Call for Bajaj Finance hosted by JM Financial Institutional Securities. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing '\*' followed by '0' on your touchtone phone. I would now like to hand over the conference to Mr. Karan Singh Oberoi. Thank you and over to you, sir.

**Karan Singh Oberoi** Thank you. Good afternoon everybody and welcome to Bajaj Finance Earnings Call to discuss the second quarter FY13 numbers. To discuss the results we have on the call CEO – Mr. Rajeev Jain and CFO – Mr. Pankaj Thadani. 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 on the call. We have updated the investor presentation section of our website and the latest presentation is uploaded there.

Overall a very good quarter for the company. Our profit was up to 129 crores in Quarter 2, a growth of 48% on a year-on-year basis. For the first half of the year it is up 50%. This amount includes 14 crores which is one time accelerating provisioning that we have taken, adjusted for that this number would otherwise been for Quarter 2 at 58%. We crossed a milestone of 15,000 crores of assets under management to end Quarter 2 at 15,370 crores. On the business side the overall momentum was reasonably strong across consumer and SME.

In consumer business both two wheeler and consumer durable remains strong. We acquired 600,000 new customers in Quarter 2 which is a growth of 22%. Two wheeler business momentum in terms of, while the two wheeler sales are not growing in fact for first half of the year, having first half were flat, second half of domestic sales of Bajaj auto were actually negative. Over the last three quarters have actually improved our penetration from 24% to 27% and that's where we have managed to continue to hold our momentum.

We are also in a gradual manner growing our 3-wheeler and commercial financing business of Bajaj Auto. That business used to be 9% of our business. That's now grown to 13% of our business in the section of our two wheeler and three wheeler businesses that we run.

The consumer durable business was reasonably strong, competitive environment continue to be benign, strong sales stimulus, we invested in expanding the overall sales infrastructure last year and the growing need of finance to differentiate by retailers and manufacturers is helping to sustain momentum. We estimate that our overall market share in consumer durable business, consumer electronic business is now close to around 13%. We are in the process of adding 9 more locations to expand our geographic coverage. At this point in time they will go live on November 1 taking our overall coverage of locations to around 90 cities.

In the consumer business our personal loan and salary loan business continues to remain reasonably strong. We launched India's fastest online personal loan through web for salaried customers. If a customer's salary is about 12 lakhs per annum, applies for a loan, upto 15 lakhs in 15 min time he can get a firm approval. We will continue to add more products to this. We would eventually like all our 9 products that we offer, at least 7 to 8 of them to be available on what we call digital grid or under the digital lending platform.

Over to SME businesses, loans against property, business loans and loans against security continue to grow in a healthy manner. We estimate that in loan against property and business loans we are among the top 3 or 4 originators at this point in time. In the business loans part of the business we are growing the counter cyclical businesses like doctors in a reasonably steady, I would say rapid manner because the self-employed side of business loans we have not been growing over the last two quarters or in the first half of the year. Loans against property are growing in a steady manner. Home loans for self-employed are also growing in a steady manner. Loan against security again is growing well.

Moving over to commercial businesses, commercial businesses, I have talked about it in Quarter 1 or in fourth quarter. Since last year, Quarter 3, we have been saying that we are observing some level of caution in the infra commercial space. From caution I would say we are reasonably clear that we are now degrowing this business at this point in time. For the balance fiscal also this business will actually degrow. So year-on-year construction equipment disbursements are down 61% due to portfolio deterioration and the demand slow down in Quarter 2.

In the infrastructure loan growth space it's been flat. We haven't done any incremental disbursements or sanctions in Quarter 2 other than those which are small committed investments on the project financing space.

The auto component vendor financing which also sits in commercial business is continuing to go in a stable manner. It was a good quarter for this business. We essentially worked with Top 50 vendors of Bajaj Auto and other strong OE auto component manufacturers. They are holding very well in terms of quality of assets despite slowing environment on the auto component on the overall sales for first half of the year. So that's on the business brief.

Interest cost continues to hold. We have been running the overall ALM in a very prudent manner. So we are quite fine. Cost of funds on an incremental basis now has started to come down. You have seen in the last 30 days in the money market space across all tenors, 50 to 60 basis points drop. We hope that this will start to translate on the banking market side as well so that we could hopefully on a full book basis end the year 30 to 40 basis points down by March 13.

Gross and net NPA was stable on a year-on-year basis at 1.1 and 1.2. Portfolio matrix across businesses except construction equipment was I would say quite good given where the environment is. Construction equipment deterioration is reasonably sharp from 98% current in

March 12 to now at 94.5% current, is quite a sharp deterioration in the business or on portfolio matrix.

We took a one time charge in the current quarter of 14 crores to increase our provisioning in some of our businesses where at 90 days we take a particular charge. So in a personal car sales business, in our CD business and in our business loans business we essentially increased the level of provision at 90 days past due. So in the CD business where we used to take provision of 50% we increased to 60% and so on and so forth respectively. That was the reason for the 14 crores one time accelerating provision charge that we took in Quarter 2 in the process raising the bar again further on our overall provisioning frame work of the company. So that's really on the business and drivers of the business. I think we can hand over for questions.

**Moderator** Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Manish Oswal from KR Choksey. Please go ahead.

**Manish Oswal** My question on your noninterest income basically the other operating income which is increased significantly on a sequential basis, is there any one off included there?

**Rajeev Jain** There is no one off even on a sequential basis in our fee income.

**Manish Oswal** Sir what is driving this number this sequential growth in noninterest income, I mean since the volumes growth...

**Rajeev Jain** Essentially one is volume, two is insurance and third is credit cards and fourth is our EMI cards. These are the four key drivers and there is a fifth one which is Bajaj Allianz Gen. We have also started doing general insurance. These are the five lines that drives the overall fee line so volumes, EMI card, life insurance, general insurance and credit cards, all growing in a reasonably steady manner. There is no out of turn in that.

**Manish Oswal** The second question on during the quarter the company took an accelerating provision of 14 crores. So any specific reason for recitation of Provision no.1 and the second, how do you see the provision acceleration going forward?

**Rajeev Jain** This is taking us closer to as and when the Usha Thorat Committee Guidelines come in. When we look at it from that standpoint from a current from where we are, our assessment is that we would acquire between 24 to 27 crores. We have taken a 14 crores charge. If those guidelines were to get inked despite the fact that the Reserve Bank normally gives time for catching up on provisioning we would require a nonmaterial charge of the balance 14 – 15 crores to be fully compliant with what Usha throat Committee Guidelines may require. So we are on a proactive basis increasing provisioning to make sure there is no material impact on our financials as and when those guidelines get inked.

In terms of what is the view? Last time we took an accelerating provision for last year same quarter. Normally we take a charge either in the second quarter or in fourth quarter. Last year

also we took and the consideration for previous two accelerative provisioning that we did which is Quarter 2 last year and Quarter 4 were to get in line with the overall recommendations of the working group. It's in the same direction that we are continuing to walk. And our level of cover required now is reasonably nonmaterial in nature.

**Manish Oswal**

And on balance sheet book grew by 58% YOY and I was hearing you on ET now regarding 18,000 crores booked by March 2013 so you have increased your target from 25% to 30% then to 32% to 35%.

**Rajeev Jain**

We have said in the beginning of the year we would like the book would grow to 17.5 to 18,000 crores. I would say that we are holding. That is a view that our net income may not grow in line but given that first half has gone and we had a 50% growth in our net income. So I would say growth would still be 17.5 to 18,000 crores. Net income I think the next 30 days which is the festival season where a whole lot of take off on both consumer durables and two-wheeler happens, we will essentially determine how our growth for the second half of the year would look.

**Manish Oswal**

So essentially you are saying because your book is growing, I presume your mix is reasonably stable and you will see some benefit in terms of cost of funds. So where do you see the income's are lower than the volume growth? Where are you getting the negative deltas?

**Rajeev Jain**

I am not saying I am seeing negative delta. Just telling you that the volume growth if it was to hold because if you were to look at it last year our third quarter and fourth quarter growth were in terms of absolute amount was much higher than Quarter 1 and 2. So if that growth was to hold in Quarter 3 and Quarter 4 we could clearly be doing much better than what we estimated in the beginning of the year to be.

**Manish Oswal**

And lastly what is your overall outlook on the asset quality because in this quarter we see some uptake especially in the construction equipment segment side but the other segment like the consumer finance and the two wheeler where we are right now witnessing lower credit loss as compared to your budgeted numbers so where do you see the resumption of the normalization of those portfolio and some uptake in the credit losses?

**Rajeev Jain**

I hope uptake in credit losses doesn't happen. But I think given where the external environment is we would take it quarter at a time. Is there lack of money in the system at a consumer level and the SME level, the answer is yes. We had to work extra hard to hold our portfolios other than construction equipment, the answer is yes. We would take quarterly a time as I have said many times eventually we are seeing that our net NPA on a long horizon basis would look more like 40 to 50 basis points and 20 basis points where we are at this point in time.

**Moderator**

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

- Ashish Sharma** Just on the same point on the asset quality front, what is the update on the collection efficiency? Any dip in the collection efficiency you have seen in Q2?
- And another was on the consumer durable. We see a sort of sequential dip which is little higher, I mean, would it because of the zero festival season in Quarter 2 because it extended in Q3 this time.
- Rajeev Jain** Seasonally second quarter is our lowest quarter in consumer durables. So it is purely seasonal. On a seasonal basis if you were to go even if you would look at the portfolio there is a 10 to 20 basis points, uptake in credit cost in Quarter 2 in CD and volume goes down. And that gets adjusted in Quarter 3. So it is purely seasonal. I think the next 30 days will determine how both CD and two-wheeler for the full year do because 30% to 35% of the off take has to happen in the next 30 to 40 days.
- Ashish Sharma** Okay and in terms of collection efficiency across the segments except for the construction?
- Rajeev Jain** Other than construction equipment we are seeing our collection efficiency ratio is holding but as I said, do we have to work, do it harder now to hold, the answer is very much yes. So, is there a pressure in the system of less money supply? The answer is also, yes.
- Ashish Sharma** And in terms of provisioning, have we put any specific charge for, I mean any bad asset in construction equipment or is it just an accelerated provisioning overall?
- Rajeev Jain** It is an accelerated provisioning. We have not reached the state in construction equipment where we have so far had to take a charge. So we are seeing deterioration. As a policy at bucket 4 we provide. So whatever is hit bucket we provide it but 14 crores accelerated charge is not contributed by construction equipment.
- Ashish Sharma** And you mentioned earlier that risk construction portfolio would sort of run down itself, I mean, when do you expect it to completely off the books?
- Rajeev Jain** No. Our view is not to get off the business. It is just that until the environment improves I think it is a structural problem. I have said that I think we are in for a 12 to 15 to 18 months cautions/ slow pause in the business. When company's investment grade is in 5 months time become default, how do you take you of call on the sector.
- Ashish Sharma** And the last question on the vendor funding business. The AUM in March was closer to 700 crores. What is the potential in this segment? What is the growth we can look into this segment?
- Rajeev Jain** We should end the year between 950 to 1,000 crores. So in a steady manner we will continue to grow the business. The group understands the business well. We rely on Bajaj Auto insights to help us grow this business and we think it can be very large business but we must grow it in a steady manner.

- Moderator** Thank you. We have the next question from the line of Sameer Kulkarni from Mandate Securities. Please go ahead.
- Sameer Kulkarni** Can you throw some light on the furnisher financing and life style financing business? How are you progressing?
- Rajeev Jain** In the lifestyle financing business we are quite happy with the start of the business. We now are working as at Quarter 1 we were in 10 cities. We have empanelled 600 retailers between large format and local retailers in these 10 cities. We are expanding the foot print now in third quarter to 17 cities. The ticket size, quality of the business, 35% of these customers are existing customers who have taken consumer durable and were buying on EMI card but we think this business is growing quite well and we are reasonably excited. We think next year could be a big year for this business.
- Sameer Kulkarni** And the Net NPA for this quarter has gone up from 0.1 to 0.2. Can you throw some light on that? What ideas are a bit of concern?
- Rajeev Jain** Entire contribution of the net NPA number is a result of the movement of the construction equipment book. There is no other movement so close to 16 crores of portfolio was essentially restructured by us and qualified as NPA we took a 10% charge on that and as a result the Net NPA has actually moved up. All of it contributed by construction equipment.
- Sameer Kulkarni** And there is no asset quality deterioration in the infrastructure sector?
- Rajeev Jain** So far now no. Having said that we have one client who has gone into CDR. We have 45 crore of exposure to him we are part of the CDR package so that's where we are. Rest are paying. So far so good.
- Moderator** Thank you. We have the next question from the line Shyam Srinivasan from Goldman Sachs. Please go ahead.
- Shyam Srinivasan** I just had one question on the cost of funds. On a calculated basis I know you don't give this number out. Our cost of funds has actually increased QOQ sequentially. So just wanted to get your sense of, I know you have given some commentary in terms of the Management discussion but what are you seeing in terms of?
- Rajeev Jain** No. As per us there is a 7 – 8 basis points drop on a sequential basis. And what we are seeing from a headlines standpoint all goes well. We could see on a full book basis there is a 30 to 35 basis points drop exiting March 13, Shyam. So we are seeing a 7 to 8 basis points drop on sequential basis and I think the money market has started to signal the drop in the overall cost of funds. I think it is factored in a 50 basis point rate cut. We don't know what will happen. We will see but banks need to move now. If banks were to move we could see a much faster drop.
- Shyam Srinivasan** And just one follow-up. On the asset side, what is happening to the yields?

- Rajeev Jain** Yields so far have been stable. Some level of pressure in loans against property given that everybody's latest fancy is to do retail and in that to do mortgage so there is some level of dilution in margins but consumer business are holding at this point in time. We are also getting operating leverage. So part of it is getting managed by that. If you see even in our press release our OPEX to NIM ratios have actually for the first time come below 45. They are right at 45 so some level of operating leverage, some level of cost of funds benefit but despite that there is some level dilution in some asset classes. I think this year we will hold Shyam to answer your question directly. We could see pressure next year.
- Moderator** Thank you. We have the next question from the line of Yogesh Hotwani from India Nivesh Securities. Please go ahead.
- Yogesh Hotwani** First I just wanted your AUM breakups in terms of consumer durables and other two wheeler financing?
- Rajeev Jain** We give break up by consumer SME and commercial. That mix of consumer book is in the region of around 38% of our book is the consumer book, 45% is SME and 16% is commercial.
- Yogesh Hotwani** If you can just tell me roughly how much was the growth in consumer durables during the quarter?
- Rajeev Jain** As you can see if you look at it 600,000 accounts is what we did. 430,000 odd accounts came from consumer durable business.
- Yogesh Hotwani** And if I talk about consumer durables, how we have positioned ourselves as of now? If I say lot of banks are trying to get into this segment, lot of private banks.
- Rajeev Jain** Most banks are coming into this space through the credit card route whereas we essentially take a lending so they don't have person on the point of sale. They don't have the kind of geographic distribution or the kind of retailer presence. At this point in time we are reasonably continue to be very well positioned from a distribution foot print, from a coverage, from manufacturer participation and from retailer dominance. So we are quite comfortable with the business.
- Yogesh Hotwani** Can I have your outstanding borrowings number?
- Rajeev Jain** Outstanding borrowing is around 12,200 crores.
- Yogesh Hotwani** Of this how much will be the short-term and long-term?
- Rajeev Jain** No we don't give short-term and long-term but 50% of that is money market and 50% would be bank.
- Moderator** Thank you. We have the next question from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

- Srinivas Rao** I have two questions. Earlier in the call you mentioned that there is some pressure on the cash flow at the retail level hence the collection efficiency has been a bit muted. So just wanted a bit more color if you could throw in terms of either the region or segments on that and secondly festival season is kind of we are in the middle of that. So any comments on how it is panning out relative to your expectations before the season. We understand that it has been muted but incrementally.
- Rajeev Jain** On the first one from a texture stand point I will shoot from the heap. I would say that it is broad based but having said that if I was to still narrow it down I would say urban is little under greater pressure than rural and rural means Tier-1 cities. The Top 15 cities would be little higher pressure than on collection efficiency than Tier-2 and Tier-3 so that is something that I would signal. Secondly, we are seeing it from East to West I think it is broad based. On season kicking off, so real season kicks off from Navratri which is 3 days ago. I think two wheelers are still muted. Consumer durable is still robust but this is very early days. It is only 4 days. We are tracking reasonably well for the first 3 – 4 days of the season kick off. As I said 30 days determine 30% - 35% of the sale. One bad day could actually take away good news.
- Srinivas Rao** This is in reference to your interesting comment you had made in the last quarter that in terms of TV we are seeing more people purchasing or you are shifting to the LEDs where the ticket size are higher and air conditioners. Any such light on the underlying trend and the purchase trends would be very helpful? Is that continues?
- Rajeev Jain** That is continued in fact our average ticket size is actually discrete. Consumer electronics industry sees a 25% - 30% drop year-on-year in pricing. Our overall ticket size is actually moved by 3% - 4% this year. We are continuing to target and I think there is clearly consumer shift to LEDs and LCDs. Better products there is clearly a shift. There is no question about it and it is visible to us and given that we are 12% - 13% of the consumer electronics market we are a reasonably represented a sample of where the consumer preference is and it is clearly towards the LEDs and better quality products.
- Moderator** Thank you. We have the next question from the line of Shrey Loonker from Reliance Mutual Fund. Please go ahead.
- Shrey Loonker** Just two questions. One question was increase in penetration in the Bajaj Auto sales, two wheelers, is there a push or a pull effect which is playing out there? Or is there a behaviour change that is happening at the end consumer level? And the second question is the 14 crores buffer provisioning that we have done this quarter. Does it come into your provision coverage at all? Or it is a floating provision which is not part of your provision?
- Rajeev Jain** It doesn't come into the provision coverage. And we are not allowed today floating provision so it just sits as a general provision. We have only two blocks. We have general provision and we have loan loss provision. It would go and sit in the general provision.
- Shrey Loonker** What will be the stock of this general provisioning?

**Rajeev Jain**                      Around 70 odd crores.

**Shrey Loonker**                      And the first question.

**Rajeev Jain**                      On two-wheeler there is neither a push nor a pull. We are monthly doing around for the last nine months we are doing between 50,000 and 55,000 accounts a month. And that is what the number would add up to as we can see Bajaj Auto in the first half has done around 12.5 lakh vehicles if we are 25% and that's between 50,000 and 55,000. We are not doing to the business. So it is not a push and you could believe that it is a pull. Having said that I would say that we continue to be dominant at a store level. We are not letting other competitors come into the business. We have 80% to 82% of the financing market share of Bajaj Auto's two wheelers. So we will fight hard to make sure that the work that we have done over the last five years in vertically integrating the business with Bajaj Auto helps us remains in good stead through this period.

**Shrey Loonker**                      And it would be fair to assume that the yields in the LTV would have remained stable?

**Rajeev Jain**                      Yes in very steady. Just as a point despite it being a festival season we have not seen any announcement of any submissions or anything. It is pretty steady. And you can see it in terms of asset quality the two wheeler business is actually holding. Last quarter it was 89. It is at 88.9 on current portfolio basis.

**Shrey Loonker**                      If you can give us some texture on leveraging of your customers that you monitor, how have they been leveraging?

**Rajeev Jain**                      We are just waiting for the half yearly stress test report. I would be able to throw more light on it. We work on this with CIBIL on this on a half yearly basis. We will get texture on that by middle of November. We will share in third quarter some insights or offline if you want information we can share with you. We do not think at this point in time. Having said that Shrey given the on slot of all PSUs and private lenders on retail assets has just started I think these are very early days on consumer leverage going up. It will be 18 months' time before you start to see at a broader level an uptick. This is what I would say because right now while everybody is saying they are doing, they are still doing it cautiously. A whole lot of them are using brand channels and not working with distributors. There are lots of bells and whistles. They will start to throw caution to the wind in the next 2 – 3 quarters and so on and so forth. It will take 18 months' time before you start to see an uptick in consumer leverages is what I would like to believe personally.

**Moderator**                      Thank you. We have the next question from the line of Amit Ganatra from Religare Asset Management. Please go ahead.

**Amit Ganatra**                      One question is that commercial portfolio of yours under AUM it has shown as 423 crores whereas the AR that you mentioned in the vendor finance is around 711 crores so the rest is what? Construction equipment and?

**Rajeev Jain** Construction equipment and infra.

**Amit Ganatra** So construction equipment as well as infra.

**Rajeev Jain** That's correct.

**Amit Ganatra** And the pressure that you are seeing right now is under the construction equipment side?

**Rajeev Jain** Correct.

**Amit Ganatra** So, what about the infra part of the portfolio?

**Rajeev Jain** As I mentioned earlier we have a 700 crores book. We have one client of 43 crores who has gone in for CDR and the CDR package is getting approved. We are part of the consortium for this client otherwise the rest are paying at this point in time.

**Amit Ganatra** So 700 crores is infra as well in this and of this 45 crores basically is under CDR and the balance would be construction equipment.

**Rajeev Jain** That's correct.

**Moderator** Thank you. We have the next question from the line of Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.

**Subramaniam** This is Subramaniam here. My query is on the new businesses that you have just started which is the lifestyle financing business and also the credit cards business. In the light of what you just said that you are seeing some stress in the urban pockets not so much in the rural pockets. What is the outlook for these new businesses? Would you want to go slow on them for the time being? Or do you think you would still want to roll out and what are the kind of targets that you set out in these businesses for yourself?

**Rajeev Jain** As I said lifestyle we are quite happy with the progress of the business. We want to grow the business. We are expanding from 10 cities to 17 cities. I would like to believe as we end the year we could be in around 25 cities. So we are growing. 30% to 40% of those businesses are existing good customers who took consumer durables and don't want to add another TV and they can go and now buy furniture or fitness equipment and so on and so forth. We will grow this business. We are quite excited about the business. Credit card business is a distribution business for us. It is a fee income business for us. We are growing the business. It is growing slower than our expectations given that we have a partnership on a co-brand with Standard Chartered and it is of balance sheet for us. If they were to allow me to do half-a-million new credit cards there I would like to do. We already have now close to 900,000 EMI cards in circulation. By the end of the year we will have 1.3 million EMI cards. The fourth largest card issuer in the country has 1.3 million credit cards and while this is not a credit card it is a closed loop store card with an approval line. I would like to believe we could grow our credit card

business much more than what we have been able to grow at this point in time and grow our fee income.

**Subramaniam**

Any targets that you would want to share with us?

**Rajeev Jain**

We wanted to do 100,000 cards. I think we will end up doing between 50,000 and 60,000 cards in the first year which is this year.

**Moderator**

Thank you. We have the next question from the line of Nilanjan Karfa from Brics Securities. Please go ahead.

**Nilanjan Karfa**

That's what a trend basis. You talked about the net NPA on a long term basis of 40 to 50, what could be your assumption of a gross NPA number?

**Rajeev Jain**

That number could be between 1.7% to 2% is what I would say.

**Nilanjan Karfa**

Typically when we can see this number? I am sure nobody is looking at those numbers.

**Rajeev Jain**

I hope we don't but I want to make sure that and then the question would be why I am saying this so that if and when it happens you guys don't say it happened. But only the important point is we are in some of the businesses which are high BITA. I do not want us to forget that. That is the only reason. I would like to believe we would hopefully never go there or don't go there but I do not want us to forget that we are in some part of the businesses are high BITA in nature.

**Nilanjan Karfa**

My point in asking you this gross NPA number is because our other businesses for example construction and infra are pretty small at this point in time as compared to the CD and the business loan and those turn around very fast. So I am guessing if you see early delinquency you would be able to control growth. So why would you still expect 1% gross NPA or less 1.5% gross NPA is my question.

**Rajeev Jain**

See we are in businesses, even in SME a single client exposure can go up to 20 crores, Nilanjan. So while in the four years that we have run the loan against property business we never had an event like that but can it happen, the answer is, yes. So an event like that could actually increase the gross NPA. I am just giving you the texture.

**Nilanjan Karfa**

That's a tail risk anyways which you can't factor in the business.

**Rajeev Jain**

Yeah. And you are right. As prudent management we will cut the business on an incremental basis. So if I ever have a large ticket which troubled me I will probably cut the exposures. And we have done that to the construction equipment business. We have been saying for the last 3 to 4 quarters and we have now cut the business we used to do 65 to 70 crores of incremental origination a month. We have brought it down to 15 to 18 crores a month at this point in time exiting quarter 2. We will cut it but can it still happen for the residual business the answer is, yes, for a given period of time.

- Nilanjan Karfa** Second is on the fee income component. Now that's growing pretty sharp understandably because of the reasons that you mentioned. So in terms of let's say the composition between the lending business versus the fee, how is it trending and is there going to be a trend down from what you had seen last couple of years.
- Rajeev Jain** No the trend will only go up. I don't have immediate answer to your specific question but I can give you directional view. We eventually want our fee component of the overall net income today would be at around 9% - 10%. I would like to see that number at 20%. So if we made 130 crores I would like to see 26 crores of our net income being contributed by fees. We today would be at 8% to 10%. So you would continue to see an uptick in the number until we get to that number.
- Nilanjan Karfa** Just to off route of that does the fee component **(Inaudible) 44.30** been to the capital by any chance?
- Rajeev Jain** No. It is all off. So it will be insurance, as I said EMI card fees, nothing and it is not capital.
- Nilanjan** Does the EMI card not attract any capital charges, is it?
- Rajeev Jain** When you buy EMI card I charge you Rs. 200. In the last quarter I issued 200,000 EMI cards I got a fee of 4 crores. When he goes out and uses it that is when an AR gets created. And if he did not pay me for first four months which is when the EMI card becomes active I have a right to decline his charge. So it is equivalent to a credit card where you pay joining fees and three months later if you do not use it and the company runs a bureau scrub and finds that you have defaulted in other repayments somewhere can block your card.
- Moderator** Thank you. We have the next question from the line of Nischint Chawathe from Kotak. Please go ahead.
- Nischint Chawathe** Just wanted to know, what is the upfront income on the consumer durable business that you have booked this quarter?
- Rajeev Jain** Around 90 – 95 crores. That's the income I would have received. So I have whole lot of expenses sitting there. All expenses are upfronted so I just want us to remember that.
- Nischint Chawathe** On a net basis how much would that amount be?
- Rajeev Jain** That means I give you P&L of CD business. In front of 75 people I think it is a little difficult question to answer. I would only give you, one point Nischint is that the only delta is the growth delta else there is no delta. This is how we have been doing the business for the last 12 or 15 years. So the growth delta in the income is the growth delta and that growth delta also goes down as the loss on the historical portfolio also comes in. So that growth delta also goes down and if you heard me as I said in the CD business you will increase provisioning now. It's only the delta that you have to look and nothing else.

**Moderator** Thank you. We have the next question from the line of Ajay Vora from Enam Asset Management. Please go ahead.

**Ajay Vora** Question is to understand how this entire card business works as you said the percentage upfront fee and just operates like a credit card.

**Rajeev Jain** It is called an EMI card which is Existing Member Identification card. When you take a loan at the point of sale we ask you would you like to be a repeat buyer. If you say, yes, you would like to be a repeat buyer and you are prepared to pay Rs. 200 fees then at the end of 4 months out of the 8 months of the loan if you paid me fees you would receive Platinum or a Gold card. It has an approved line which you can walk into any of the 2,500 stores across the country. It is an identification or an access card, you swipe it on the paused terminal and it touches our system which is our lending system and approves or declines the loan. What used to happen was 30% of our customers are repeat customers. They are the best performing customers. Everytime they would come in they would give the same KYC, they would go through the application form and so on and so forth. This is a way to create a much better experience that we actually launched the EMI card as an approval mechanism to give them instant gratification.

**Ajay Vora** So, this card has nothing to do with say, suppose the existing loan which he is currently paying. This is mainly he wants to use it for the next product.

**Rajeev Jain** That's correct.

**Ajay Vora** And the upfront fee for you will be the Rs. 200 which he pays to get the card.

**Rajeev Jain** That's correct.

**Ajay Vora** And you plan to take this business where you said?

**Rajeev Jain** We would have around 900,000 customers who have taken in the last 18 – 19 months this card. This will go to around 1.2 to 1.3 million cards by March '13.

**Ajay Vora** And what is your total existing customer base, the one where you have already penetrated?

**Rajeev Jain** We offer various loans close to 3.5 million customers at a given point of time. We are prepared to, doesn't mean we offer. Around 3.5 million customers are in our CRL system to offer personal loans too at this point in time.

**Ajay Vora** So when he uses this card for the next loan you must be having all his details prepared only then you pass the loan.

**Rajeev Jain** That's correct. It touches the application score, it touches the bureau again.....

- Ajay Vora** This is as good as a new customer coming in as he is giving all the KYC details. This will be similar to that, right?
- Rajeev Jain** That's correct.
- Moderator** Thank you. We have the next question from the line of Mangesh Kulkarni from Almondz Global Securities. Please go ahead.
- Mangesh Kulkarni** I just wanted to know, what this competitive environment, say, bigger players like ICICI are coming aggressively in the consumer space and the HDFC is already there. So in terms of the competition how do you see going forward as well as the current environment?
- Rajeev Jain** First of all these are very early days. We have started to see an increased level of competitive activity in the market space. We are not in the auto space which is the car loans so I think even in that space the level of competitive activity is increased. We are very sharply focussed on who we want to acquire as a customer, which is super affluent and above in the SME space. Consumer space we are not seeing competitive activity so we are fine. SME, mortgages there will be lot of activity. We are already seeing activity so we will compete. We have worked hard to maintain a particular position. We will fight hard. Commercial businesses, auto component financing, we understand the business well. We have insight into the business. We have relationships in the business. We can grow. As in construction equipment and infra we will degrow for the balance fiscal. Structurally as the business comes back we will come back into the business.
- Mangesh Kulkarni** My another question is about the remaining warrant conversion, by when will it happen?
- Rajeev Jain** It will happen by December. We have to get around 70 crores of balance warrants money.
- Mangesh Kulkarni** And further capital raising through QIP?
- Rajeev Jain** By fourth quarter.
- Moderator** Thank you. We have the next follow up question from the line of Manish Oswal from KR Choksey. Please go ahead.
- Manish Oswal** Could you highlight this, loans against security business? During this quarter we deployed around 148 crores. So it is primarily related to promoter funding or HNI funding. What kind of funding?
- Rajeev Jain** 30 crores was promoter funding. Balance was HNI funding.
- Moderator** Thank you. As there are no further questions from the participants I would now like to hand the floor back to Mr. Karan Singh Oberoi for closing comments, over to you, sir.

**Karan Singh Oberoi**      On behalf of JM Financials I would like to thank Mr. Rajeev Jain and Mr. Pankaj Thadani and all the participants for joining us on the call today. Thank you and good-bye.

**Moderator**              On behalf of JM Financial Institutional Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.