



## “Bajaj Finance Q2 FY 2017 Results Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q2 FY2017 Bajaj Finance Results Conference Call hosted by JM Financial. As a reminder, all participants' 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 updater by pressing "\*" and 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 second quarter results. To discuss the results we have on the call, Mr. Rajeev Jain, who is the Managing Director, Mr. Devang Modi, who is President, Consumer Business, Mr. Sandeep Jain, Chief Financial Officer and Mr. Pankaj Thadani, Chief Compliance 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. We have uploaded the Q2 presentation on the investor section at the website. So, I hope you have access to that. I will be referring to that, as part of the call right now. Just quickly running on to page 17 of the Investor presentation, Q2 was reasonably a strong quarter, given that it came on the back of a good Q1 the first quarter of the company has been pretty strong.

In Q2, company acquired the overall franchise went up by 26% to close to 18 million customers. The company raised 2.2 million loans just a tad below 29.27 lakh loans, which is a growth of 56%. The new customer addition was only 8.27 lakhs fundamentally means that 14 lakhs customers were existing customers who came and did business with us, which is a good sign for us as a company because it leads to lower loan losses and provisions and lower operating cost.

Assets under management grew 38%. We crossed the 50 thousand Crores mark, to end the quarter at 52,322 Crores. Total income grew by 39%, loan losses and provisions group 23%, and it was a much lower growth in terms of percentage growth in terms of loan losses and provisions growth in the quarter that went by, the loan losses and provisions in Q2 only by 23%. As a result of the strong net income growth in line operating expense growth, lower loan losses and provisions growth, the profit after tax came in at strong 46% growth. We ended the quarter with 208 Crores of PAT. The Gross NPA and the Net NPA for the quarter stood at 1.5 as 8% Gross NPA. This is on 120 day reporting and the net NPA stood at 43 business points.

Comparable number on a year-on-year basis would have been 1.88% and 57 basis points. Sequentially the gross NPA marginally receded by 6 basis points and net NPA marginally reduced by 2 basis points. In our assessment, not a material change. Capital adequacy as a result of the fact that the company raised close to 2000 Crores of Tier 2 Capital in Quarter that went by in line with the strategy to grow its business, Tier 2 capital could really come in handy. The overall capital adequacy stood at a very strong 28 one and half percent. Tier 1 Capital stood at virtually 15%. So we are very well positioned as a company on most if not all matrix in the first half of the year.

Very quickly, on slide 19 you would get to see some data that you would have known, but in general, if you see this page, there is not much on the ground seems to be changing. Clearly one good input for us is that as inflation cools off, liquidity eases, the easing in the liquidity you see in the last 90 days is the result of various actions by Reserve Bank. We have seen incremental cost of funds in drop strongly so that is a positive dimension. Otherwise, in terms of consumption pattern, there is no movement we are really seeing.

You see numbers of 2.3% and 0.1% in consumer durable and non-consumer durable growth. The overall stress in the banking system does not seem to be going down. In a hurry, auto sector, TV growth I would say, this is volume growth, I could say for first half was good but otherwise 2 wheeler 3 wheeler growth so that you get to see the numbers that are there. In terms of Management discussion, we have highlighted a few points 2-wheeler 3-wheeler business is growing, as a result of the domestic growth outlook of Bajaj Auto. We are captain just to remind everybody once again, it grew year-on-year. That business started to grow now after 2 years. It is back on a growth mode, so that's a good significant, on the back of the fact that, Bajaj Auto has increased its market share and is growing well.

Consumer durable, a 34% growth we continue our deeper geographic coverage. We are now present in 304 cities in urban in consumer durable, We are present in another close to 497 Rural Towns, so that makes it virtually, we are virtually present in 800 Towns, Villages and Cities in India at this time. This is to broad up, clearly it becomes business as we estimated to be growth is strong, 300 thousand accounts it is already 25% of the size of our consumer durable business and this business didn't exist just about 4 years ago. Continuing to remain volatile in terms of credit performance, but, we think we have now largely learnt how to manage it, so we continue to pull back and push forward based on credit performance of the business.

Lifestyle finance, furniture sales in general remained very small. We have continued to diversify. Lifestyle financing is a business that we have started a year ago. We have added from a distribution footprint standpoint now, we offer lifestyle financing in 543 of our

clinics. Total distribution is 1400 clinics and hospitals that we offer life care financing in. I think the team has done a phenomenal job.

We did 6000 accounts on a 60000 accounts in less than 6 to 7 months time. Just to qualify, 80% of these loans are essentially to our existing customers. Both digital products and lifestyle financing between 70% and 80% of the business comes from through the EMI card, which exists at our franchise.

Retail my card; we launched this business in April this year. 52000 accounts, 10000 is added allows us to do 5000 rupee per account business. Now have types across Benetton, to US Polo to Arrow to Addidas, Reebok, and Puma. Reasonable strong coverage in now present in 5000 points of sale in business in less than 6 months' time, we have announced a strategic partnership in future group that is now contributing to 30 to 35% of the 52000 business that we did in this line of business came through future group, partnership in quarter to that end point.

E-Commerce, we did 59000 accounts, between Flipkart, Amazon and Snapdeal. We considered work with them, the credit performance of the customers can be volatile in nature, so we will continue to have push back and pull forward as we learn how to manage this new channel of engagement with the client and their purchasing behavior.

EMI Cars, 6.6 million franchise, I would say, a very large, very solid franchise that we have created, which creates the friction-less purchasing behavior for our existing customers and their free purchases. We continue to invest in activation, retention and usage of this franchise of this base, to ensure that we do more and more with the existing customers. Personal loan cross-sell, 100% direct customer business, strong growth. Gold loans now present in 190 branches of the company out of 800 places that we are present in; we have continued to invest in.

Salaried personal loans, present in 72 cities, very big transition, given the economics of that business, probably business are also changing where distributors' margin have grown as a result of competitive activity. Now less than a year ago, 30% of the business used to be with distributors, used to be direct. Now 63% of the businesses are direct. So clearly the goal is to get to 75 to 80%. So you see a slow growth here, because of a shift that we are making in dealing with direct, so close to 80% of the business in assurance personal loans coming from direct in less than seven to eight months from now, which is the position we want to be in. Salaried home loans, small base, and very strong growth you can continue to see that kind of growth now for a foreseeable long period of time. Again, do only with the existing customers. BSS direct our online initiative, strong growth on a year-on-year basis.

Rural business continues to grow well which is small, if you are exited, can be volatile in terms of monsoon linkages. So this slowed down the consumer durable businesses in rural business as a result of some pressures that we saw, is back in the growth mode now. The anatomy rural, we again took the decision to slow it down, so continue to manage pro-actively the rural business to ensure we don't have a blind spot as a company or a rough spot in the company.

Our business loans in the SME growth is 15%, because northern markets which are essentially contributed to 40% of business and Delhi which contributed to 12 to 15% of the business, we have half the business in Delhi as a market. So if you see 955 Crores of loan disbursals, less than 9 months ago, 180 Crores was the disbursal used to come from Delhi. Now only 75 Crores of that disbursal is coming from Delhi. So clearly we had to make the decision, given what we see as broader structural stress in Northern markets, driven by NCR as a market. So we have pulled back in lots of asset classes out of Delhi and this business was no exception.

Professional loans clearly created a very strong value proposition to deal with doctors and chartered accountants, mainly doctors strong growth.

Loan against property, the growth on a year-on-year basis, but if I look at the prime debt, 65% of the business used to be with distributors and now we virtually not doing anything with distributors. We are very happy with the absolute progress that we are making of being able to disburse 814 Crores of volume without distributors. So anything is in growth mode from first quarter onwards. Business now present in 74 locations.

Loan against securities, strong business in the quarter, year-on-year growth of 82%, we are now adding ancillary adjustancies like IPO financing, ESOP financing, loan against Bonds to grow this business we think it is a billion dollar business opportunity. We are half a billion dollar at this point in time; we think it will continue to grow. So, overall just one last point, interest costs, which is like 727, borrowing mix was healthy 38548 we think, this mix is the function of how manage our ALCO and the way we manage our interest costs, we did get an upgrade from Crisil to AAA on 5<sup>th</sup> of October 2016.

So three companies have actually rated us AAA, which is Crisil, Care And Fitch, the only residual rating agency who have not rated us, they have pushed us to positive outlook of FAA+ positive outlook, which is ICRA. We think, given our performance, we should hear from them soon. Portfolio metric I talked to you about provisioning coverage; I forgot to mention is for that 76 percent. One last point before I open out to questions, is to take you slide 31 for the first time, you would fundamentally see in the consumer CG loan portfolio, in terms of our management assessment, we have turned that into yellow. I have probably

done that to yellow after a good four years. It would also have some degree of impact in the volume that comes to the door in third quarter but the decision that we have to make was, to easier to, and as a result we have cut 12% to 15% to 18% of business in this portfolio in terms of new acquisition, just at the start of the season, but as a prudent management, we thought it is appropriate that we made the decision rather than run through the season and see poor portfolio performance affect us in 4<sup>th</sup> quarter and first quarter next year. So that is the management assessment. The rest you see all green. Important point in slide 32 as really where I continue to highlight that we continue to run the business in a prudent manner.

The loan against property portfolio, which is September 15<sup>th</sup>, used to be at 98.67% current, with overdues of 133 basis points. At this point in time, is now a 70 basis points overdue Vs. 133 basis point overdue? So we continue to manage the diversification to our advantage in ensuring that the overall growth profile, balance sheet profile hit a rough spot and wherever we see issues, micro-issues in the portfolio, we can manage them without having to hurt the product franchise. So that is really how the quarter gone by.

Last slide, slide 34, the increment that we saw on a sequential basis in gross NPA and net NPA essentially came from self-employed home loans, which were at company level, we achieved 84.158%, self-employed home loans came in at 2.09 and 41 basis points net NPA went to 43, contributed by home loan business which moved up 1.05 to 1.3 percent. So that was a 2 basis points movement that caused it, otherwise I would say, we are in a pretty healthy position on most if not all metrics as a company.

I am open to take questions, between myself, Sandeep and Devang.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Kuntal Shah from Sage One Investment. Please go ahead.

**Kuntal Shah:** Good evening, Rajeev. My questions are two. How much of the sell down of the portfolio we have done, down selling of the portfolios, which you can quantify, and some figure or lakhs?

**Rajeev Jain:** When you say down-selling means?

**Kuntal Shah:** The run-up of the book, which the portfolios we have securitized and down sold.

**Rajeev Jain:** Securitized, total securitized book is now 2345 Crores.

**Kuntal Shah:** Consumer durable loan is yellow, but on the final slide it is green. Can you just explain the significance in more detail?

**Rajeev Jain:** Both should be yellow.

**Kuntal Shah:** Last question is, Rajeev, there are lots of financial still?

**Rajeev Jain:** Kuntal, let me just clarify that it should be green. We have seen the deviation but that deterioration would slow through partially in Q3. That is why we have taken action. So in the quarter that went by, it was green. In the quarter that we will see, which is coming in now, it will be yellow. You can make both yellow for simplicity stake as well. Let us make it yellow both.

**Kuntal Shah:** It seems our company is one of the leaders in this space. Can you elaborate the reason for the transition of this?

**Rajeev Jain:** For?

**Kuntal Shah:** For consumer durable loans product profitability model, which can even, even if the portfolio went down to 95%, we are in good money. We have an internal risk model, which says that below 98% current portfolio in our assessment, calls for human action.

**Kuntal Shah:** Of course, it is a pre-emptive.

**Rajeev Jain:** That is correct. That is why I said green there and yellow in management action that is exactly my point.

**Kuntal Shah:** Final question is, there are lots of financials still.

**Rajeev Jain:** Kuntal. Just to clarify, if you see slide 31, eight quarters that we have seen. Actually we went to last 16 quarters, we never saw below 98. You know, now I can argue for 28 basis points either way but 28 can become 56 if you don't act in time. That's the point I am making.

**Kuntal Shah:** But still 95 is the profitable product cycle?

**Rajeev Jain:** Yes, it is.

**Kuntal Shah:** Still we see lot of players in the market who are giving loans at much more higher terms that you are in. Is there a plan to launch balance transfer scheme to take over the season portfolios because once they have gone through few cycle of payments, I am sure, the downside which causes low for Bajaj to take it over?

- Rajeev Jain:** The reason is simple There are two parts to balance transfer. Balance transfer will be a good balance transfer or a bad balance transfer. At the end of the day, balance transfers can also create leverage. Let us say if you pay well, on a loan against property for good two years and I switch you as a result of offering you lower pricing and higher LTV. I should know that may be, I am ever leaving your account. Not imagining between two lenders, I just took the decision that I would give you money. So there is a good balance transfer and a bad balance transfer, because the cross-sell model in general, is anchored only on good balance transfer.
- Kuntal Shah:** But I am not referring to higher LTV, just the lower cost of funding.
- Rajeev Jain:** Clearly the entire D to C model, or Direct to Customer model, in the business is anchored on that strategy. Creating seamless friction less customer experience for them to be able to balance transfer, at lower price with a marginal top-up, that's really what economic model and at a disproportionately lower cost of acquisition.
- Kuntal Shah:** The size of this market is quite huge?
- Rajeev Jain:** It is a 13 lakh Crores market and that is why I keep saying that growth for a post even period might be a challenge at a broader level for us to come to.
- Kuntal Shah:** Thanks Rajeev, I join the queue.
- Moderator:** Thank you. We take the next question from the line of Ashish Sharma from Enam Asset Management. Please go ahead.
- Ashish Sharma:** Hi Rajeev. Good Evening and congratulations on the good set of numbers. This one on the business loan portfolio you mentioned about Delhi and NCR being the pain area, so in your assessment, is this a general policy of yours, I mean, what sort of movements you want to see before sort of changing this?
- Rajeev Jain:** No, six months ago, Ashish, we used to do in this market, 60 Crores of business loans. Now we are doing 25 Crores. We have cut down volumes by 60% and we have not cut now. We have cut for the last six months or more actually. So we are seeing a broader, structural issue in Delhi market on we think it is to some extent historic in nature that is our assessment. So you take any of our portfolios, we are seeing worse of performance. So when we correlate to the fact that if I may say that real estate market, worst affected is Delhi. Starts to show off in most performance behaviors of clients. That is point two. Three, I do here noise on how the black money orientation has gone down. If I join, correlate all the visible and invisible variables, I think for a foreseeable period, Delhi being in an air pocket.



- Ashish Sharma:** These two are more or less structural, because I think it tends to more than not just NCR, it has crossed.
- Rajeev Jain:** More visible in NCR. That is all I am saying, much more visible in NCR, much more visible in Punjab.
- Ashish Sharma:** So does that mean there will be overall sort of scale down growth in that business loan segment or you see the good geographies can sort of make up for?
- Rajeev Jain:** Make up, but that is 12-month effort, we have been added now for last nine months, so could if Delhi and northern markets have done well, could we be in better place, would you have seen higher growth the answer is yes. As I always keep saying that we rather take call slowing down the business than to grow the balance sheet.
- Ashish Sharma:** Perfect and second question Rajeev on the CD portfolio you just mentioned so the understanding is that at this moment, you have seen slight deterioration in asset quality of that portfolio and you sort of improved or tightened your standards, so if you see the metric going back again to 98% and again, it will be business as usual what you think?
- Rajeev Jain:** It will be back to growth in the next four to five month's time. Because you must remember that these businesses are short tenure business. Okay, so the loss also comes through quickly, it can washed up quickly, changes made can start to reflect in the business in a four months time, so but will the next four months, will there be slower growth because of the business that you got the answer yes. Will it be on, will it be back business as usual in our assessment the answer is yes. As I said we could have taken a call, do not pull the plug on slowing down the growth in Q3 because 35% of the business happens in the month of October, we took the action on 20<sup>th</sup> of September. We could have taken that call, but then we would have a difficult first quarter next year, you know, we do not want that.
- Ashish Sharma:** Lastly on the capital so we raised tier II but I mean if we just see your tier I, tier I is closer to 15%. In your assessment, the current year one is good.
- Rajeev Jain:** We are good for till the first half, calendar January to June 2018. I think we are good for the next five and six quarters at least.
- Ashish Sharma:** If I have to just use that as an understanding the next capital raising for Bajaj, which should be, may be in and round of FY2018, I mean that would be assessment?
- Rajeev Jain:** FY2019 virtually.
- Ashish Sharma:** FY2019.

- Rajeev Jain:** It can depend on whether we will do January to March or do March to June that is dependent on the market conditions and the growth of course growth absolutely.
- Ashish Sharma:** That is for my side. Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Ravi Naredi an Individual Investor. Please go ahead.
- Ravi Naredi:** Sir good afternoon Rajeev. Interest expenses was 38%, will you comment when the growth is 36% only why the interest expenses has risen because you are telling.
- Rajeev Jain:** Because we have raised tier II debt, it comes at a one time at higher acquisition cost that has eaten fully in the quarter that went by.
- Ravi Naredi:** Okay and so net NPA is higher in two-wheeler and three-wheeler finance?
- Rajeev Jain:** Those are last year we have raised capital, which means interest cost we need to give it in the same money in which we have raised the money, at that time we have raised 1800 Crores and in that we got 1500 Crores. So in that 1500 Crores we have not given any interest. So apple-to-apple interest cost had to rise in fact logically it should have risen much higher than what the rise has been.
- Ravi Naredi:** But the growth is 36% only.
- Rajeev Jain:** That is what I am saying that there are two, one is we have during that time, in June 15<sup>th</sup> we had got the money about 1500 Crores so in that we did not have any interest cost. That is one point, last year. That is why we are seeing year-on-year and in this year because we have raised tier two capital that comes at upfront cost.
- Ravi Naredi:** Exactly, you have a valid point.
- Rajeev Jain:** That is why.
- Ravi Naredi:** So the net NPA is higher in two-wheeler and three-wheeler finance, any specific reason.
- Rajeev Jain:** No that is the nature of the business we do such a business that is why the gross NPA and net NPA is the same. So this is reasonably good.
- Ravi Naredi:** Market is now, how the market is behaving the business is coming spontaneously or you are making more efforts. Any scenario has been changed since last six months or eight months?

- Rajeev Jain:** Actually so far now I would say in following way that the expectations from Seventh Pay Commission and broader monsoon were higher than what has so far come through, but I would break that in two parts, in the urban market in the last five to six days we get the customers. In the next six days whether the customer comes or not. Rural markets are in patches, Maharashtra is very soft, the rest of country is strong, but Maharashtra and Gujarat contribute to 26% of the overall consumption economy. Maharashtra or Gujarat are very soft, both in urban and in rural. So now we need to see whether it comes in the urban if it comes or not, but there will be complete clarity in the next, I would say 7 to 10 days time.
- Ravi Naredi:** All the best Sir and keep it up. Thank you.
- Moderator:** Thank you. The next question is from the line of Chetan Patel from RRS Shares and Stocks. Please go ahead.
- Chetan Patel:** Good afternoon. I wanted to know can you through some light on the strategy for E-commerce with Flipkart and Amazon how is it going, how do you decide on the products, which you are financing there?
- Rajeev Jain:** So essentially, we are working with all three Amazon, Flipkart, and Snapdeal, 60,000 accounts. Essentially, the client can walk into the Amazon store or a Flipkart store, or a Snapdeal store and 6.6 million customers of ours can swipe their card or long in their information and get an instant approval and buy the products.
- Chetan Patel:** So it is on the store, not on the site?
- Rajeev Jain:** Their store is the site right.
- Chetan Patel:** Yes because we are not able to find someone.
- Rajeev Jain:** Not all categories are open. They work us and determining, which categories they would allow, so they have allowed high value categories like mobile, like TVs, like appliances so and so forth.
- Chetan Patel:** So you would see some traction lets early shopping festivals that would have some traction right?
- Rajeev Jain:** They are actually largely done with season, so whatever traction we are to see, we have seen. I would say so far has been okay.
- Chetan Patel:** Thank you.

- Moderator:** Thank you. The next question is from the line of Amreh Mishra from KPIT. Please go ahead.
- Amreh Mishra:** Sir, congratulations on the good set up numbers, I have two questions, one is any plans on wallet since you would be have strategy with the e-commerce, any plans to be having wallet?
- Rajeev Jain:** The answer is yes and you will hear about it soon.
- Amreh Mishra:** Right and any timeline on the rollout of the wallet?
- Rajeev Jain:** We are working on the comprehensive payment strategy, so you would hear us launch our credit card in partnership with the bank soon and wallets is the other side of the strategy, which you will hear about it soon as well.
- Amreh Mishra:** Secondly with respect to your LAP, your ticket size is slightly higher, is there any kind of geographic concentration that you have other than in terms of?
- Rajeev Jain:** It is we are present in 74 cities largely pan India.
- Amreh Mishra:** 30% or 40% coming out of metros, is that some significant concentration.
- Rajeev Jain:** That the good credit markets of the country are South of Gujarat, from Gujarat to Maharashtra to Karnataka to Tamil Nadu to Andhra to Kerala, anybody who has to build risk prudent business fundamentally lands up building 60% of the portfolio in the six to seven states. We are no exception.
- Amreh Mishra:** LTV and LAP.
- Rajeev Jain:** LTV and LAP in general varies between 55% and 60%.
- Amreh Mishra:** Thank you so much for your time.
- Moderator:** Thank you. The next question is from the line of Amit Premchandani from KPIT. Please go ahead.
- Amit Premchandani:** Good evening Sir. Thanks for the opportunity. This yellow bar on the CD loan portfolio since consumer variable has been the source of getting customers for you. In your opinion if this environment continues to say for the next 18 months to 22 months, how to that impact to overall growth of the company?

**Rajeev Jain:** Okay, we do not think is go to the environment, we are going to doing this, we just tighten the tabs, that is all, because in the industry consumer durable industry in the last four or five years are not grown or grown as single digit number, so it has got nothing to do with the industry or the customers segments or anything. We are in the business of managing risk. We continue to calibrate risk reward on an ongoing basis. At this point in time, our assessment was that we have to calibrate risk tighter rather than looser, so you know make that point. Second point is as I was making on the response to question prior that these portfolios are short in portfolios. The cholesterol in these portfolios will wash away in four months, the bad cholesterol in these portfolios. So it will wash away in four months, which mean, there will be an opportunity lost in the current quarter for us because of the prudent risk all that we have taken the answer is yes, but I keep saying we are building business over the next 5 to 10 year view. We do not look at the quarter or the short-term nature and what impact or action of us we will have in the short term. You have done that with LAP business, you have done that with C business, you have done with many businesses it is a calibrated call.

**Amit Premchandani:** Lifestyle finance hopefully is exhibiting similar trends in terms of overdues, any concern on that part?

**Rajeev Jain:** Good point, right, so you have identified it. The answer is no. Because we saw action in two to three markets some we had fraud nature in part of the business in some of the tier 2 markets we saw four to five markets we saw fraud we took action life goes on, so that you wash away virtually in next one month, so that business continue to be in growth mode. So that is the point I am making on portfolio actions what is structural in nature and what is transitional in nature and that is really the point of giving a management assessment on each one of the portfolios.

**Amit Premchandani:** Thank you Sir. That is it from me.

**Moderator:** Thank you. The next question is from the line of Manish Shukla from KPIT. Please go ahead.

**Manish Shukla:** Good evening and thank you for the opportunity. Of the consumer loan AUM, which is about 45% what proportion would be salaried as on date? What proportion of the consumer portfolio would salaried as on a date?

**Rajeev Jain:** 65%.

**Manish Shukla:** So one of the comments that you mentioned in salaried PL?

- Rajeev Jain:** 75% to 80% including home loans, which is the consumer, consumer portfolio, 80% would be salaried.
- Manish Shukla:** Salaried personal loan, you commented that rates being offered by private sector banks is putting pressure on the profitability of that business in some sense is there a risk that this can play out against other salaried products that you have, can it go beyond salaried personal loan in terms of competitive or if I may use the predatory pricing from private sector banks?
- Rajeev Jain:** Anything can happen. That is the first point. Shorter tenure business is customer pays through, longer tenure business is really where the question is, so let us say personal loan to person loan, I gave a personal loan somebody else gives a personal loan and if I have not been prudent, or the other lenders have not been prudent it will play out much worse. In the shorter tenure business, it will play out adversely for the personal loan lender rather than me. So that you are on the same page, home loan has no risk because I am backed with collateral salaried customers loss given default ratios are available for 25 years because short tenure it does not worry.
- Manish Shukla:** Cost is not on customer.
- Rajeev Jain:** So the answer is no, but structurally can personal loans with the intense competitive activity, anything which is too intensive competitive where the margin profile deteriorates if you do not change the model or do not protect your margin, can you face an air pocket the answer is yes. We think given this slower corporate lending, we had to make the transition to doing more and more direct, which is really where you transition in the last four or five quarters and we are very comfortable with that approach.
- Manish Shukla:** Just to be sure on salaried home loans in the rate offering that give us competitive with respect what banks and HFCs are offering. The point that you mentioned on going direct to customer right, could you just explain qualitatively where you are on the journey in terms of the progress that you made across products?
- Rajeev Jain:** Wide ahead, I would say the business by business, by business in the last 18 months and I would say qualitatively we are very impressed with the heavy lifting that the company has done in making the transition. It has significant impact on operating expenses, it has significant impact on slower churn, it has significant impact on lower loan loss and provisions in quarters to come, so I would say and do we still have distance to travel, the answer is yes to that as well.

- Manish Shukla:** So the opex impact in terms of opex to NII or opex to asset would that start showing up this year or you expect the full impact only next year?
- Rajeev Jain:** First quarter was good for us as well as we pulled back in some of the asset classes in Q2, the impact was so the operating leverage came through very nice in Q1, operating leverage in Q2 went back to where it is in Q4, so Q3 let us say if we had not pulled back in some of the sales management we pulled back, you would have seen us gone down to 40% probably, may be even lower actually given where we were, but it is difficult to comment at this point in time, the next seven days will determine how the overall discretionary pool comes through, which will give us a greater clarity.
- Manish Shukla:** Thank you those for my questions.
- Moderator:** Thank you. The next question is from the line of Umang Shah from KPIT. Please go ahead.
- Umang Shah:** Thanks for the opportunity and Rajeev congratulations for the quarter. I have just have related question to Manish's question that which are the businesses in which we have completed full transition from a DSA to direct to customer platform and where we are lagging?
- Rajeev Jain:** All this is three mortgage businesses. We have done full transition. We are 65% to 70% there in salaried personal loans, we are 75% there in professional loans, so these are the five that we want to eventually fully transition to so I would say net-net we are 75% there, 25% to go.
- Umang Shah:** So after we transition all these businesses, which will be the businesses where we will be still dependent on for outside sourcing?
- Rajeev Jain:** Business loans.
- Umang Shah:** Only.
- Rajeev Jain:** Only yes, but even there, we have made significant progress that business now, that business today is now 40% direct, but it still is 60% through distributors as we go into tier 2, tier 3 towns in Indian, there are no distributors there. So by in nature of it that business is transitioning to direct, but as a strategy do we foresee full transition in that business to direct answer is no.
- Umang Shah:** Thank you so much and wish you all the best.

**Moderator:** Thank you. We will take the next question from the line of Viral Shah from Credit Suisse. Please go ahead.

**Sunil Tirumalai:** Good afternoon. This is Sunil Tirumalai at Credit Suisse, so just going to the consumer durables discussion. So when you mentioned that the problem that you are seeing, I understand is more on asset quality and not on competition. If it is asset quality, I mean it is either because there was a period a few months back when the customers, you enrolled the process was probably not tight or your process was tight, but you know it is just a macro environment probably is just leading this. If that is the case in what gives you the confidence that in four to five months that situation will change and secondly I mean a lot of the other new businesses of yours are modeled on this why should not, you know this impact lifestyle why should this impact your REMI business etc?

**Rajeev Jain:** Because we do not want it to impact that is the reason first of all let me make that point and the second point, I must repeat what I said earlier and I am sure this question will keep coming through, I will keep repeating it that we are in the business of risk reward when portfolios do well we take more risk when portfolio do not well, we pull back. I think let us just the all on the same page. When you see structurally good performance, you open up your doors a little more when it pulls back, you shut your doors a little more that is all we have done, that all we are talking about, let me, convert this into a real life so that you understand the point. Let us say in Mumbai if I have a view on portfolio, I would stop at Borivali. I am giving an example Borivali is a right example, okay and if I have a good view on Mumbai as a portfolio, I would go to Virar. See that it is the point, I am making, so it has got nothing to do with Mumbai. It has got nothing to do with CD business, it has got to do what my position, what our understanding of the portfolio at this point in time, the risk assessment on the portfolio and what our decision ought to be, you know that is the point we are trying to communicate. Let me make a point, companies do not realize that for years together, so that we are in the same page, okay, so I could be telling you nine months later that the problem is 6000 Crores of portfolio it is in 10,000 Crores of portfolio, now that is not how we run, conduct or operate our business, so I thought it is important I mention that as well.

**Sunil Tirumalai:** Yes, sorry to dig deeper. This is important.

**Rajeev Jain:** We have made yellow, so we doing this call, so that you guys can ask questions and we can explain our position clearly, so there is no problem with question that you are asking. I am just giving you texture in perspective, so that in the color we do not lose the perspective.

**Sunil Tirumalai:** So I mean again my question is so what exactly are the underlying problems of the macro, which is causing the stress in the CD?



- Rajeev Jain:** As I said to you, there are no macro problems. We have never run our business on macro problems, we do not see any macro issues, we see macro issues and we shut businesses. We took the call on infra and infra related. It was a macro structural view that we had three years ago now and we shut the business. We do not have a macro structural view on mortgage business whether it is LAP or it is home loans, while you know if I knock off today, the loan against property, net NPA number and home loans self-employed net NPA number, I am at 15 basis points net NPA as a company. You know so structural has to be treated differently from tactical that is really and tactical means a quarter here and a quarter there you would face headwinds and you manage the headwinds that is it.
- Sunil Tirumalai:** Okay, since you say that you know it was in mid September that you took the decision just before the festive season and you know when it is seen as a important festive season you know pay commission etc., what kind of pull back we are talking about it is like 10 to 15% or it is like 50 to 60%.
- Rajeev Jain:** 15% to 18%.
- Sunil Tirumalai:** Okay and you do not see this is spreading into the other small ticket consumer segments?
- Rajeev Jain:** If we had then I would say yellow.
- Sunil Tirumalai:** Thank you very much.
- Moderator:** Thank you. We will take the next question from the line of Nishchint Chawathe from Kotak Securities. Please go ahead.
- Nishchint Chawathe:** This was to do with your liability side, now that you see your borrowing cost coming down and more importantly with the rating upgrade your competitive position improves, how does that change the business, I mean it is something that we will flow to the shareholders or it is something that you will use to change asset profile?
- Rajeev Jain:** The answer is really we should see as a result of the profile change from rating standpoint, we should see improvement in our cost of borrowings, which means reduction that is point one. The book change will take some time Nischint as you would clearly know, you know if 45000 Crores book that is point one, two we have never taken liquidity risk, which means you manage our structurally liquidity very prudently. Our liability side book is longer than asset side, which means in general we are going to take longer, so that is point two. Point three, so as both these play out, we will know the exact impact of the flow to the NIM based on that we would make a decision what flows to the consumer and what flows to the P&L. Your question is correct, I do not have a very clear view that view would take in my mind clearly nine to 12 months to flow through P&L. As it flows through two things will be

determined what the level of competitive activity is and what is the level of what is the scope. If we feel that competitive activity is strong, we may lose in first swing. If we feel we want to accelerate growth, we may lose in the first swing, but on the other hand, if we feel competitive environment is benign, customer must pay for a retail product given the embedded cost we may flow it fully to the shareholders. So I must make one last point Nishchint to you that some of the business unless and until the overall cost of funds goes down dramatically, I do not foresee a significant drop. Now unless and until, the RBI headlines numbers drop by 100 basis points and we see 60 to 70 basis points drop, I see those numbers can change. From where they are today at less than 14% IRR to our best customer, I do not even think should we give any personal loan to, at 9.1% home loan, I am getting money from SBI 9.1% and lenders are giving home loan at 9.1%, I do not know how much scope is there even if I show improvement. So that is my long response to your question.

**Nishchint Chawathe:** That is very great. Thank you.

**Moderator:** Thank you. The next question is from the line of Avinash Singh from KPIT. Please go ahead.

**Avinash Singh:** Some data highlighted question on slide 34 and slide 15, the AUM on the different segments are very much different like particularly for consumer durable and then personal loan cross sell, the two numbers are very different, any reason for this and also on slide 34, the numbers does not.

**Rajeev Jain:** Let me just reconcile slide 15 versus slide what?

**Avinash Singh:** 34.

**Rajeev Jain:** We do not give portfolio there, so 34, okay. I do get an error in the second line. Your point is correct, 951.

**Avinash Singh:** Then in personal loan cross sell, I mean there are certain differences?

**Rajeev Jain:** See the difference in consumer durable finance, I agree, DPF is same, lifestyle products finance is 5 to 6 Crore difference. In consumer durable finance as my team member the right number is 6937 what he has forgotten to add the REMI portfolio because and E-commerce that is 300 Crores of the number, but to the point, he makes 420 versus 426, we will reconcile and republish it on the website. Thank you for highlighting to us.

**Avinash Singh:** Also I mean even a slide 34, the number; I mean the line item 1 to 19 does not add up to this final item given that is still some missing part what is that?

- Rajeev Jain:** That would not add up that is because there are many small portfolios if we started to add them number, it would not add up that is correct.
- Avinash Singh:** That fine.
- Rajeev Jain:** But your point slide 15 and 34, I accept the point and we will make change, it is an error.
- Avinash Singh:** Thank you.
- Moderator:** Thank you. The next question is from the line of Hiren Dasani from KPIT. Please go ahead.
- Hiren Dasani:** Just sorry to dwell in this consumer durable thing that the pull back in a festive season still expect quarter on quarter absolute level growth right, it is not that we are going completely slow?
- Rajeev Jain:** One point I must make to you and since it is the first question on growth, rest of the questions were on credit that we track quarter on quarter, I want to you all of you to remember, the last year first half growth was 34%, the third quarter growth was 58%, so we are fighting against a very large base effect. That irrespective of our consumer durable, action that we have taken is going to play out. I just want to pass that that just first half 34, this year first half is 50 because it is a 34% growth. Last year third quarter 58% growth, you are going to see that anyway play.
- Hiren Dasani:** Last third quarter 58.
- Rajeev Jain:** Last year third quarter 58% growth. So if my number is right that was what the number. So we are against very high base effect any which ways and we have taken action, so you know, would you see an impact that is the both these actions answer is yes. Now what is the number is as I said even I wish I could populate the next two quarters the number.
- Hiren Dasani:** But I mean do you still see that lesser by the end of the fiscal year the overall AUM growth is still be around 30 to 32% or that number also looks?
- Rajeev Jain:** The answer is yes. Clearly, the SME is coming back in rural is strong, commercial is strong, so we are quite comfortable with the overall growth profile and margin profile.
- Hiren Dasani:** Sure and based on your earlier comment on the cost to income ratio not going down so much because of the pulling back on the consumer durable sides, I would have third in Q3, now you are doing slower on consumer durable, the spike in the opex also should be relatively lower, right, because that is seasonal spike, which you also always seen in the festival season, which is slightly due to the CD?

- Rajeev Jain:** You will see the YOY plays there as well that is one part and two I must make a point to you that I cannot pull back cost out in 10 days so if I take a decision 28th September in fact I do the reverse, I will let make appointment to you as important conversation, is that we then put more resources because I pulled back business I put more resources in stores, which are performing well. So in a way, I am accelerating, so one I cannot pull the cost.
- Hiren Dasani:** My point was the commissions and all, which is more variable in nature.
- Rajeev Jain:** That will of course as volumes goes down will go down, of course you will see it go down but rest of the cost would not go down.
- Hiren Dasani:** One point on the cost of funds side, now I do not think you published that the interest cost, but if I just calculate based on the average quarterly ending borrowings, it does not seem to be going down to much at least in last two to three quarter, which is slightly counterintuitive towards one sees in the broader market?
- Rajeev Jain:** That is correct. As I mentioned the earlier point, we do not like to take liquidity risk so that is point one. Two, we have raised a lot of long term moneys at much lower cost then where we were raising, so maturity profile of a three-year NCD what I have raised, so I have raised between 2, 3, 5 and 10 year close to 55000 Crores of long term moneys in the last quarter. All coming at significantly lower pricing than the earlier maturities, it has two impacts, so one we do not want to take liquidities as we want to manage structure liquidity well it is part of our risk management strategy. Two, when you raise as earlier made a point when you raise 2000 Crores tier II debt, you will end up paying upfront fees on it so that is embedded here as well. But would you see in the second half as we are seeing the flow through, the cost of funds going down by let us say at in our assessment anywhere between 10 to 13 basis points on full borrowing book, the answer is yes that is not taking into account that banks will cut, banks should cut but we will wait to see.
- Hiren Dasani:** Thank you, clear as always.
- Moderator:** Thank you. The next question is from the line of Sitaram Agarwal from KPIT. Please go ahead.
- Sitaram Agarwal:** Thanks for the opportunity. Just one question, I am basically trying to understand what the structural growth runway could be for Bajaj Finance in the next 5 to 10 years. So two points on that, number one is where could theoretically where could be number of customers be if the business keeps growing for the next 5 to 10 years and number two if I look at your average exposure per customer, I think structurally it should be going growing considering that you are expanding the product portfolio for new items and as a result of that you are

garnering a larger share of the consumer wallet, so just in terms of these two metrics you know where could be in the next 5 years, 10 years just something on that?

**Rajeev Jain:**

Fundamentally, we are at 18 million customers, we are adding virtually on an average, we generate 1000 to million customers a quarter, new customers. We do not see the trend changing. We will see intersegment movements between rural to within consumer a different at business emerging and so and so forth. We think three to four million customers a year new customer acquisition given that we remain a growth company is reasonably on the horizon. You would see and there is a set of strategies that you would see deep line in the next 9 to 12 months, which could augment that further, so the core new customer acquisition growth of 3 to 4 million we think we do not the issue with that. We have asked ourselves a question and we have strategy in place, which we think it would get deployed by sometime next year, which should further augment that a new to Bajaj or NTB as we call it customer acquisition model. Now that is part one. Part two clearly investments in technology and analytics we are raising the bars to the next level to make sure that we can continue to do more with our clients. So I mentioned a point in REMI or EMI cards on how we are deepening the ARU profile, which is activation and retention units. Investments were rising to do more and more with our clients. Thirdly and more importantly culturally and I have responded to questions earlier saying how we remain very anchored to doing more and more direct to customer. If we have a lot more customers, we can do a lot more with those customers and that is really how we continue to be oriented to. On a growing base, do we feel very comfortable with three to five year horizon in of a 25% balance sheet with 20% net income growth structurally good India, bad India, good macro, bad macro, answer is reasonably yes because at the end of the out of 75 lakh Crores of advances, we are only 52,000 Crore that is 70 basis point as there is a reasonable runway or growth if you manage our risk right.

**Sitaram Agarwal:**

Thank you.

**Moderator:**

Thank you. Ladies and gentlemen, that was the last question I would now like to hand the Conference over to Mr. Karan Singh for the 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 this call today. Thank you and good-bye.

**Rajeev Jain:**

Thank you Karan. Thank you.

**Moderator:**

Thank you, ladies and gentlemen, with that we conclude today's conference call. Thank you for joining us. You may now disconnect your lines.