



“Bajaj Finance Limited
Q2 FY2019 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Bajaj Finance Limited Q2 FY2019 Earnings Conference Call hosted by JM Financial Institutional Securities. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Karan Singh from JM Financials. Thank you and over to you Sir!

Karan Singh Uberoi: Thank you. Good evening, everybody, and welcome to Bajaj Finances Earnings Call to discuss the Q2 FY2019 results. To discuss the results, we have on the call Mr. Rajeev Jain who is the Managing Director; Mr. Sandeep Jain, who is Chief Financial Officer; Mr. Atul Jain, who is CEO Bajaj Housing Finance; and Mr. Anup Saha, President Consumer Finance. 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. I will be referring to the presentation that we have uploaded on the investors section of our website. Please refer to that. Without wasting time, let me just jump straight to slide 17 of the presentation.

It was a pretty strong quarter for the company. The company ended its customer franchise at 30 million customers, which grew 31% from 23 million customers a year ago. Company booked a record of 5.26 million loans in Q2, which is a 63% growth. Assets crossed Rs.1,00,000 Crores milestone, which is a 38% growth and ended the quarter at Rs.1,00,217 Crores of AUM. Total income in line was up 40%. Operating expenses are up 25%. Loan losses and provisions were up 43% and overall PAT was up 54% to Rs.923 Crores. Return on assets came in line at 1%, non-annualized, which is really what it was in Q1 as well. Gross NPA and net NPA on a consolidated basis came in at 1.49% and 53 basis points respectively. Provisioning coverage ratio was 65%. Standard asset provisioning as per the new ECL methodology continued to be at 86 basis points, which is nearly what it was in Q1 as well. The deposits book, which is a topical conversation at this point in time, grew 93% to cross the Rs.10000 Crores mark and came in at Rs.10651 Crores. On a consolidated basis, it contributed to 14% of our borrowing. On a standalone basis, it contributed to 15% of our borrowing.

If I can jump to slide 21 - overall, a good quarter on financials. Let me just cover quickly the non-financial commentary. Bajaj Financials Securities, which is an approval that we took from the board in Q1 is set to be operational. We acquired the company from our subsidiary. It is set to be operational by February 2019. It will offer DP facilities to our

clients. For Bajaj Housing Finance, in general, we are quite happy with the progress, and we think it has a very large opportunity from a medium- to long-term standpoint.

Bajaj finance continues to focus on granularity across products and geographies to reduce risk. It is reflected in better margins, lower operating expenses and better risk metrics in Q2. Very quickly, portfolio quality remains at its record best in Q2 as well, in line with Q1. While sequentially, some people have questions, I keep saying to people that sequential is very difficult to manage. Please focus on trend lines on a year-on-year basis rather than sequential. I cannot control 10 basis points plus or minus on a sequential basis, in general, nobody can. So, we should focus on year-on-year. We should focus on a trend line rather than just a sequential moment. On a year-on-year basis, we came in at a much better - gross NPA which was 1.68% in Q2 FY18, and 1.49% in Q2 FY19. Net NPA which was 0.51% in Q2 FY18, came in at 0.53% in Q2 FY19. Credit card business that we have with RBL continues to shape well. Last quarter, I talked about MobiKwik. MobiKwik relationship and our digitization of wallet is moving well. Credit card business is another part of our payment business that is moving quite well and we are well on course to cross a million cards in force in less than two years' time from a credit card business standpoint, which would place us among the top five card issuers in India by March 2019.

Let me jump over quickly to the two sections that we have added in the current quarter given the topical nature of the conversation. One is on asset liability management, and the other is on the resilience of the business model, given we are headed into a higher interest rate environment as we move from here. Panel 23 fundamentally presents the way we represent the ALM and as it is essentially submitted to reserve bank. We have simplified it to the extent possible. The two highlighted areas essentially represent what anybody looks at, which is 1-month maturities and 6 months to 1-year maturities. The important point I want to make is that most of media conversations and general conversations are essentially focused on maturity of liability. I first want to articulate that you have to look at asset maturity and then look at liability maturity. So, if you look at it- as a business model we lend across maturities of 1 month or 3 months to 6 months to 9 months so on ranging up to 240 months, we generate in general a lot of natural hedge. So, what you see on top in 1m bucket is a liquidity buffer of Rs.4000 Crores that we maintain as cash and cash equivalent and from there on you see advances, which is receivables that we will get, what we have received in October from our client and trade receivables and others, which is close to Rs.2000 Crores. So, we generate Rs. 13,500 Crores of inflow in one-month maturity. We have repayments of Rs.2000 Crores and we will do lending of Rs. 4500 Crores, hence the total outflows will be Rs.6500 Crores. We will still have a positive gap of Rs.7200 Crores. As per RBI permissible ALM structural liquidity requirement, we can run a negative gap of 15%. We are running at positive gap of 113% in 1-month bucket. If I jump this all the way to 6 months to 1-year bucket, we have a positive gap of Rs. 21,000 Crores and a 65%

positive gap versus RBI requirement of negative 15%. There are questions on what would happen if RBI went out and made the structural liquidity requirement instead of minus 15%, to 0%, (hypothetically). In that case, instead of 9,600 crore that we can additionally borrow today would go down to 7,200 crore. So in general quite comfortable with the behavioralized ALM. What is important, if I can take you to the next slide, which is slide 24, is the last eight-year data. It is important that we articulate that ALM is about discipline over long periods of time. Of course, I must make an important point about panel 23, this is static data. This data represents end October based on my borrowings, based on my lending, based on my AR growth will move further and so on and so forth. But to articulate the degree of discipline in the way we manage ALM., this is the last eight years of actual data. And as you can see, the blues represent one-month gap. You see as positive gap versus requirement of minus 15%, in all the years. So, on the previous panel of September, what you see as 113%, we were at 120% in March 2018, 119%, 61% and so on and so forth. If you take one-year gap we have remained positive across over the last eight, nine years. So, this is not about transient management of ALM, but about running the business in the way it should be run on an ongoing basis.

If I take you to slide 25, it is an important point. The last liquidity freeze was in 2013. We took two strategic decisions at that point in time, one was to start to maintain the liquidity buffer-it was on account of taper tantrum which caused the liquidity to squeeze/freeze/crunch in bond market. There were virtually no bond markets and markets were frozen for 50, 55 days. We came to a conclusion that we must maintain 4% to 6% of our borrowing in cash and cash equivalents. That is the Rs. 3,967 Crores number you saw on panel 23. We also took a decision that we must create greater granularity in a liability profile. From 1% of our contribution coming from retail and corporate liabilities, today as of September 15% is coming in from retail and corporate liabilities. The number as you can see, we have built distribution, both corporate distribution and retail distribution. We do originate retail deposits in close to 50 cities in India today, which has grown from 1% to 4% to 6% to 8% to 15%. This number, as per our internal guidance, and I have also talked about it to investors over time, that by 2020 we see this number go to 20% - 22% of our overall liability profile.

On top, you see the CP, the topical conversation. You see that number remaining in corridor of between 5% and 10%, depending on what the state of the market at that point in time is. The banking markets and the bond markets are equally weighed between 35% and 40%, is really what this panel essentially represents. Over to next slide quickly, this is about leverage standards. I do not have to spend time on it, but I thought it is important for you to know that we remain conservative in terms of our overall leverage. The yellow circles fundamentally represent that we have an internal corridor of 7x leverage by which time we would raise capital. So, we got closer in 2012, we raised capital in 2013. We got closer in

2015, we raised in 2016, we got closer in 2017, we raised in 2018. At this point in time, we are at close to 5.4x and remain comfortably placed from the next five to six quarter standpoint of our internal hurdles. I want to spend two minutes on slide 27, I have talked about, point #2. So, as you can see, we are well covered on ALM across maturities, as I mentioned, we have a natural hedge. Liquidity crisis taught the importance of liquidity buffer and diversified liability profile. I talked about point 4 that we invested in retail and corporate deposit business. Capital adequacy remains strong. Leverage remains well anchored. Important point, which is the fourth point from end is that subsidization of housing finance business has increased access of funding because when we go to banks or in bond markets they have different criteria for HFCs and NBFCs. It has strengthened the overall liability origination model for asset of company, as a result of the subsidization. There is conversation on freeze and squeeze, but I am giving you factual data that in just first three weeks of Q3, both the companies put together raised over Rs. 5,400 Crores in money market and close to Rs. 3,000 Crores from bank. So, we remain reasonably liquid. Money squeeze, as I said, at least in my experience, 2013 was much worse. Of course, there is credit separation and marginal increase in spread. But our experience, so far is that money is available. It is a little tight. There is more caution, but given the events that happened, I would have expected it to be much worse. I think the efforts by the government and RBI have ensured that, in general, credit separation emerges.

Overall liquidity remains comfortable. We remain open for business across all lines. You can walk into any of the stores and take multiple products if you like. Now, there are questions I hear in media and so on and so forth on what happens to the growth outlook. – The last time around when we saw liquidity squeeze or freeze, we were at Rs. 24,000 Crores AUM. Today we are having Rs.1,00,000 Crores AUM. We will have another squeeze five years from now so that you are all clear. It is part of the financial system, events differ, every time squeezes happen. Last time around, it was a taper tantrum. This time, it is about a failure of a non-bank, five years from now it will be something else. It will teach us that good companies will take the message and build a stronger business model, which is the way we look at it. So that is really on ALM. If I can take you very quickly to slide 29. One of the conversations that is happening is about what happens to margins given we are headed towards the higher interest rate. It is our assessment, given macros and micros that economy is doing well, there will be inflationary pressures is what our assessment is. We are headed into a higher interest rate environment. I am giving you on slide 29, the last eight years data in which other than in the last two years cost of funds have essentially remained in the corridor of 9.1% to 9.9%. In last two years the cost of funds came down dramatically as a result of two things. One was demonetization, another was the MCLR transition by banks. That brought the cost of funds down from 9% to 8.2%. But the important thing to note here is that our margin profile remained steady, the orange line that you see is the threshold of 3% return on assets. We have remained between 3.6%

and 3.7% in the period where our cost of funds was between 9% and 9.9%. So, there will be a degree of readjustment and that readjustment is more strategic in nature. It has been contributed by the top two lines which are Opex to NIM and fee income to PBT as we invest out in building our stronger business model. We have seen Opex to NIM going down. It has glided all the way down to 36.4% in the first half of the year, so that is one. And second, so in a way rather than the crocodile opening, the crocodile is closing its mouth and is clearly generating a better operating leverage and fee income as a percentage of our business model continues to move northwards. That is ensured that we can manage the high interest rate cycle - this is to share with you the way we look at it. We must reduce our reliance on, as we move ahead, on cost of funds driving our business model, is the limited point I am trying to make.

In the interest of slide 32, that is, customer franchise, I realize it is not topical at this point in time to talk about it, but we added 1.3 million cross-sell customers, Total 18 million, what we call best customers in 30 million overall franchise. Let me just turn to a little more topical conversation given that we did announce that we do have an exposure to IL&FS to the tune of Rs.225, Crores. I thought it is important we also give you a degree of composition of our AUM - so slide 35 and 36 is really what I am referring to. This is the diversified nature of the balance sheet. You see that it is highly diversified. Mortgage is 29%, commercial is 5%, security lending is 6%, SME 13% and so on and so forth. We have provided in the next panel some texture on how that further breaks out. Home loan business in the mortgage business contributes, out of 29%, 15%, loan against properties is 10%. Lease rental discounting is 3% and developer finance is 1%. The IL&FS exposure of Rs.225 Crores is sitting as loan against property. It is loan against the commercial real estate, which is two towers in the Gift City - Around 200000 square feet of that property is occupied by IL&FS. Balance 500000, has marquee tenants and software companies. These are functional buildings. The current LTV based on the latest sale that happened in August is at 62%. It is an exclusive charge on the asset. So, we see no reason to worry, we have got confirmation from the security trustees and from the company to that effect. So, we do not foresee any risk to an exposure, however, as an ECL mechanism and as a measure of prudence, we took a 10% provision in Q2 FY19, we may see, depending on how it plays out, the time that it may take for the exposure to wind down for any additional provision, what you see below on panel 36, is the commercial lending AUM breakup. because people can have questions on what else is lumpy. This is how the 5% of our portfolio of the commercial lending portfolio is broken up, 3% of the 5% is auto component manufacturer, 75% of them have nothing to do with Bajaj Auto, it is important point I must make. Financial institution is 1% and so on and so forth, rest added to another 1%. Last slide 39, quickly on credit quality then I will hand it over to questions.

Slide 39, 40, 41. Important point to look at is color coding. Essentially, we are looking at delinquency or portfolio performances at two-year lows. If you take the CD portfolio, current is 98.91% on slide 38, two years ago it was 97.72%. 30 plus was 1.34%, it is 0.62% and so on and so forth for the uninitiated. Last point on slide 41, this is by our lines of businesses, credit quality and provision coverage. On our auto finance portfolio year-on-year basis, gross NPA, net NPA were better off. Sales finance, we were better off. B2C, we were better off. Rural, we saw an uptick from 78 bps to 126 bps. As the portfolio matures, we will anchor between 1.26% and 1.5%. SME down on a year-on-year basis. Mortgages down on year-on-year basis. So overall, it was pretty steady. Year-on-year down from 1.68% to 1.49% and net NPA remained in corridor of 51, 52, 53 basis points. So that is really all we have to say. I think we have provided all the disclosures that people may have questions on. We are happy to take any questions.

Moderator:

Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Our first question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave:

Thank you for the opportunity Sir. Sir I was just wondering if you could give some color on the demand as of now in the market. There is some concern that there is some sort of a slowdown partly because of actual demand, partly because of NBFC, your competition kind of slowing down. So, what are you looking at as of now on the demand side. Sir, my second question was number of private sector banks, the largest two, they have raised some concerns on SME, the situation in SME, are you seeing some stress, I notice your stressed assets have actually declined, but I was again just wondering what kind of commentary you have on the matter and my third question was on the slide #29, this is probably like slightly out of context here, but I was just wondering in 2014, you said 2013 was far worse in terms of liquidity squeeze. The 50-basis point compression that we see in ROA there, if you could just remind us again what led to that number. Was it just a sudden spike in interest which - interest rates, which could not be passed on immediately, but later it could be passed on and do we see a slight dip in the ROAs going forward, which would again probably be trajectory in nature. Thank you, Sir.

Rajeev Jain:

Yes, so in general, at this point in time, on festive season demand, our stance is quite strong. We are seeing, if I may say so, record application flows. We are quite excited about the overall festival demand at this point in time. So, our stance is reasonably strong. Of course, some people would argue it is in patches and so on and so forth as in the discretionary parts of the business that we are in whether the captive part of a two-wheeler business where Bajaj Auto has grown 27% in the first half of the year, and we are captive, so that demand in general is strong. In consumer durable, digital products, furniture, discretionary expenses

on SME, at this point in time, we are quite excited about the season. The only caution I would just add here is that seasons have started to be very short and narrow. Two bad days can destroy it and two good days can make a great season. First 15 days, I would say it is headed towards a reasonably good season at this point in time. And the next 15 days, however, will be critical. On SME outlook, we had that view from November 16, all the way till March 2018. We grew very slowly in 15%, 16% for the four, five, six quarters between demonetization and GST. It is in the last two quarters, the SME Lending business for us is growing because we are more comfortable about the credit origination or credit profile of the business of ours.

So, at this point in time, sitting here, if you can look at slide 39, which will give you some texture on the point that the business loan portfolio was at 98.76%, coincidentally it is coming at 98.76%, 0.84% is coming at 0.85%. This number had gone down to 98.5% and so on and so forth and we saw loan losses at a much more elevated level between December 2016 to March 2018. They have come off the hives and are growing, so that is on the second point. ROA, I mean, it would not be fair for me to talk through memory. So, I would talk through the slide, you do not see cost of funds taking a huge spike. So, cost of funds was not the driver, it is evident to me. Slide 29 is showing Opex to NIM moving from 44.5% to 46%, which means we were probably aggressively investing. Otherwise cost of funds did not move. I must make an important point that 45% of the balance sheet is re-priceable, 55% is not. So, in a way on a transient basis over a period of two, three quarters, we can pass through - parts of the transmission on 45%, of the balance sheet, but I do not have a readymade answer for your third point maybe Sandeep can separately try and answer that if you write to him.

Agastya Dave: Perfect Sir. Thank you very much Sir. Good luck for the future Sir. Thank you.

Moderator: Thank you. Our next question is from the line of Arnab Nandi from Oxbow Capital. Please go ahead.

Arnab Nandi: Rajeev thanks. I just wanted to ask around this cost of income, historically you have been investing in this BFIL 2.0 and you have talked about the 40% cost to income, I think for now two quarters you are seeing below 30% expense growth and you are still managing to grow the footprint, it is 15% to 20%, so what should we expect or think about the operating leverage continuing versus it being transient?

Rajeev Jain: No I am just – we have essentially, it is a fair point you know Q1 and Q2 largely have come in line with 36%, 37%, you should continue to expect between 38% and 39% would not happen in Q3 that is very clear, but on a medium-term outlook standpoint still continue to benchmark at around 38%, 39% and whatever get saved either as a result of operating

leverage or as a result of better optimization will anyway flow through, but just from a modeling standpoint the right thing to do would be to continue to look at 38%, 39%. Sandeep was just mentioning to me separately to the previous question if I may respond to it, I think 2014 if you go back to our last nine-year slide 9, our loan losses and provisions went up, that is a year when we closed the infra business, the construction equipment business and Rs.70 Crores, Rs.80 Crores, there was a 55% to 60% jump in loan losses and provision in that year, that is another just a separate point, 2013, 2014 is when we closed most likely these three things put together is probably the response. Sorry Arnab yes, so you should look at 38%, 39%, but clearly Q3 look at it here itself given the caution on the street, but medium term 38%, 39%.

Arnab Nandi:

My second question was more around just there is a lot of sort of concern that typically you grow the business based on risk in where are you seeing portfolio quality, but in this environment, would you actively slow down the growth in the business more as a precautionary measure versus just historically watching portfolio quality in demand out there?

Rajeev Jain:

Look remaining open for business is a very important dimension that is how sustainable financial institutions are built, but even a bank who is supposed to have unlimited availability of liquidity based on caution would slowdown lumpy exposures naturally. So, you would not see a slowdown in our B2B businesses, you may not see a slowdown in our B2C businesses, you may see a slowdown in SME little bit, you may see a slowdown in our security lending little bit and commercial lending little bit that is more a transient view. We remain very comfortable with a credit profile across all these businesses, but just at a transient level for a quarter or so we may slowdown, the bottom line I talked about to you from the mid-30s to may be mid 20s or late 20s and remain – so while remaining open for business ensure that do not do lumpy business for a quarter or so.

Atul Jain:

Arnab to your specific question Opex to NIM we see the numbers structurally at around 39% is what Rajeev mentioned. See one thing we must remember that last year in September end we had raised capital mid of September, so the NIM that you see for current year takes into consideration the cost saving or the lower cost of fund that gets accounted because of surplus capital sitting in the balance sheet that is one of the reasons. Apart from that if you look at the breakup that has come in as part of the new format of financials that we started presenting from this quarter, the fee revenue pool has jumped up significantly, last year same time we had Rs.85 Crores of seasoned commissions, that number has moved to Rs.250 Crores, Rs.120 Crores adjusted for growth increase in the fee revenue pool that again has resulted in reducing the Opex to NIM number for us.

Arnab Nandi:

Right, but you do not see any change in that fee income pool right, that is a run rate basis?

- Rajeev Jain:** As I mentioned the growth comes off right, so the fees and income are driven by volume momentum as well, yes.
- Atul Jain:** So, cost of fund plus the additional fee that we are now originating has basically reduced the Opex to NIM by around 200 basis point I would say.
- Arnab Nandi:** Got it and just final question so now that you have housing finance subsidiary and most of them have some split of mortgage with the developer, there is a lot of concern out there with prospective contingent to developers and funding, how are you viewing the mix in that business between...?
- Rajeev Jain:** If you look at slide 36 Arnab given the concern on the topical nature of the conversation we have provided disclosure that total developer finance right now is 1% of overall balance sheet. It is 1.3% in a way that is why you are seeing at 1%, it is a year-on-year on a low base grown, we are quite clear the exposures are granular. In general, our exposures are between Rs.20 Crores to Rs.40 Crores, we work with mid-size developers who do one or two or three projects, as Atul is clarifying it is capped at Rs.50 Crores per developer fundamentally because we do want granularity there as well, we have always outlined that it will have to be anywhere between 12% to 14% of our overall mortgage balance sheet for us to deliver durable 15%, 16% ROE in the business without increasing risk, so today we are very far from....logically this number it should be Rs.3500 Crores if I take that model into account, but we are in no hurry to get there, we will grow this as we gain confidence and build it out.
- Atul Jain:** Arnab adding a point to what Rajeev is saying out of this, Rs.1300 Crores of developer finance balance sheet this is presented by 110 unique developer relationships, so at an average level while Rajeev mentioned that upper cap of exposure to any single developer is Rs.50 Crores, but on an average level it is less than Rs.11 Crores, so it is not a lumpy business for us in the way there is a concern in the market in terms of a lumpiness of a developer business.
- Arnab Nandi:** Got it. Thanks so much.
- Moderator:** Thank you. Our next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.
- Digant Haria:** Hi Rajeev, congrats and good to hear some encouraging words from you, I am about to ask a dangerous question that you know a lot of these companies which are perceived to be under stress, they have raised the interest rates for their developer portfolios for the LAP or for their SME customers, a kind of signal that they want those loans to be out of their books

for liquidity, so would this like present some great opportunity for us or we will continue to like grow through whatever comes through our funnel of or our ecosystem?

Rajeev Jain: So look in our business this word opportunism is a bad word, too quick is bad, too slow is bad, if I refer to slide 29 we do see interest rates gradually moving up, we have implemented a gradual price increase of 10 to 15 basis point on existing portfolios that includes commercial, that would include the entire mortgage portfolio, incremental new acquisitions based on across asset classes is not mortgage alone, across businesses we have increase rates by 20 to 50 basis points, we want to remain open for business, we are building a business for long-term, we are just about managing to digest the 38% growth. I am not in a hurry growing it, I am not in a hurry slowing it just because there are concerns on both slides. We will consume what we are comfortable with.

Atul Jain: To answer added question to the developer you mentioned the developer there is a pressure from the other companies to do a BT out. As general practice we will not say that we will never do a balance transfer in a developer relationship, but as a general practice we do not do a balance transfer, we focus on giving a fresh loan to a fresh project, so that is not an opportunity, at least in that line of a business we see in the current scenario, but we are not present technically in a balance takeover aggressively even in the normal scenario.

Digant Haria: Okay perfect. My second question is related to the recent Aadhaar verdict of the Supreme Court, while I understand that you there is still a two-week timeline till the final clarity comes...

Rajeev Jain: We have all received letters, implemented as well.

Digant Haria: So, for us like does it have any implications different from what we had in the past like, do we have to change anything in terms of our sourcing or the way we do the KYCs or the checks?

Rajeev Jain: Look it was reducing friction, 65% of the customers were providing Aadhaar, anyway we were running a voluntarily model, 65% to 70% were doing a biometric Aadhaar, 30% were saying look I want to give you some other KYC, so any way for 70% of the clients reducing friction, on December 1, 2018 we were launching what we call e-sign, which would have further reduced friction and reducing friction means higher velocity, which means better experience for the customer. I think the word voluntary is critical. It is a phenomenal capability that the country has produced in the world, I am optimistic that the government will bring in law, which will rightly tell how Aadhaar should be used by the consumer as a choice rather than mandate. So long-term I would be very excited about it reducing friction and generating velocity. For now, these 65% of the customers will provide what they were

providing a year ago to us, which is RBI mandated KYC so does not change life, makes life of consumer a little modified.

Digant Haria: Okay thanks and my last question is that in case of a typical electronic offline store in Mumbai something like Vijay Sales or Croma if they are selling 100 different SKUs how many products would we be the financial for out of those 100, just a person which I do not need any specific numbers or...?

Rajeev Jain: 30% plus.

Digant Haria: Okay thanks and all the best.

Moderator: Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal: My question on your comment about squeezing the growth in case of external environment so I mean based on the Bajaj Finance current underwriting practices and the environment what kind of squeeze one can expect Sir?

Rajeev Jain: As I was mentioning, look in general, this is not driven by credit risk profile. This is driven by conserving liquidity profile, which means it has got nothing to do with the portfolio. With that being the case you would fundamentally look at wherever you take lumpy exposures so if you take lumpy exposures in commercial, if you take lumpy exposure in LRD, if you take lumpy exposure in loan against securities, you would just take a more cautious stand and ensure that until the dislocation of the liquidity comes back to normalcy, you will take more cautious stand on lumpy exposure so that is where one can expect it, otherwise it has got nothing to do with credit risk in any given manner.

Manish Ostwal: Okay and second question, I have seen last 10 years of extremely positive or favorable retail credit cycle. Now what is your view, I mean whether we are seeing some of this coming up in the segment or usually overall the trends are still positive?

Rajeev Jain: You want to go to sleep peacefully. So, I will tell you the trends are very positive, again I just mentioned that fundamentally look we are seeing reasonably strong momentum from a discretionary spending standpoint in the first 15 days of the season, we have a very strong momentum on e-commerce platform and we have very strong momentum at this point in time in offline. In general, the consumer spend has been reasonably strong, but first half of the 15 days is over and the next half if they are as good and the retail lending boom continues.

Manish Ostwal: Lastly Sir small data point what is the marginal cost of fund for the company?

- Rajeev Jain:** Marginal cost of funds if you look at it, Q2 ended at marginal cost of funds, it is a transient time and that is why I think elevated. It is very difficult to predict that current cost of funds what will remain, when I say current cost of funds, current marginal cost of funds is the way forward, but let me make an important point, cost of fund 30 days ago to today despite large quantum has gone up by 25-30 basis points that was “baked in”, the monetary policy did not lead to an increase but it was baked into the pricing, so we are not seeing, things change dramatically in the near-term. We will go back to, you asked me sitting here given higher interest rate environment, could we go back to it 8.7%, 8.8% in Q1 FY2020, the answer is yes, which were comfortably placed to navigate and manage as I shared in the resilience of our business margin.
- Manish Ostwal:** But you mentioned that cost of fund will remain below 9% right Sir?
- Rajeev Jain:** But I cannot predict it right.
- Manish Ostwal:** Okay Sir thank you so much.
- Moderator:** Thank you. Our next question is from the line of Viral Shah from Credit Suisse. Please go ahead.
- Sunil Tirumalai:** Hi good afternoon this is Sunil Tirumalai from Credit Suisse. Congrats and good numbers Sir. I have couple of questions so you mentioned about taking up on incremental loans lending rates by about 25-30 basis point across all products, I am wondering how this would workout in those segments like consumer durables where there is subvention involve, I mean are you actually managing to get increase in subvention commission from your OEMs or just changing it in the way the EMI product is structured, I would just like to understand that?
- Rajeev Jain:** Our B2B businesses do not go through increases and decreases because these are B2B relationships Sunil. Other than that, over the last 11 years the pricing with the manufacturers remains steady whether it was 9.9% or it was 8.2%. Other than that, all businesses go through cycle up and cycle down that is the approach that the company has used over the last 11 years.
- Sunil Tirumalai:** So, does IRR in these B2B kind of businesses change or...?
- Rajeev Jain:** Yes, they do not change.
- Sunil Tirumalai:** They do not change okay understood and secondly, the HFC at Rs.10000 Crores plus is a sizeable book now, I am wondering are they any cost over there that is meant to be for that

legacy book in the parent or because the profitability is quite low for business, which has achieved reasonable scale?

Rajeev Jain: Answer is yes, because when you say legacy initially if I can...

Atul Jain: So, what happens in the mortgage business...in the mortgage business given the current Ind-AS standards because these are Ind-AS accounts, your upfront income here is taken over the period of time because mortgage business is long-term business. it is technically first year of operation for the mortgage BHFL as a company because we started full-fledged from January 2018 onwards. So, the income what we receive upfront because the margins are built over the period of time on the book, which is there, as you see on the month on month basis in April we started at a huge negative and month-on-month in turns positive has book builds up. The cost of managing the previous book sits in BFL and does not sit in BHFL.

Rajeev Jain: If I may just add to the point Atul is making that from the income side whereas on the expense side there is more conservative stand and we are saying, so let us say if you take sales force or sales people who essentially go out and do business are not... logically they can also be amortized, but we have chosen not to amortize it. So, income is amortized and a large part of the cost, which technically could be amortized has not been amortized, leading to a much larger business still generating a lower profitability because as Atul says we are spending too and growth has been very, very rapid as you can see, not the overall mortgage portfolio growth but just in BHFL so...

Atul Jain: Is the conservative stance in that sense, because the conservative stance is not determined by that because the Ind-AS standard sales of the income has to be apportioned over the period of loan, which is either 12 year to 15 year loan while the expense we have taken stance in the beginning that we are not amortizing, we are taking the expense in the P&L and the balance sheet as the expenses are being incurred so that is what is resulting into the profit numbers looking suppressed for the current period.

Sunil Tirumalai: So, this is nothing to do, it is primarily as long as your growth rates stay high or which unlikely that your profitability will show up because this max of cost being loaded up and revenues being amortized that will continue as long as you keep growing, growing as fast?

Atul Jain: The max transition period is for next six to eight months more because what is happening in every month, the book which is earning net interest margin is also growing as the portion of the book, which is earning interest is going up, the proportion of the income, which is getting deferred comes down significantly. So, you will see this for the next six to nine months max after that it should normalize because the amount of upfront income will not be that large enough or relevant enough to suppress the profitability.

- Rajeev Jain:** If I simply say Sunil as the minimum economic size emerges from NIA standpoint as Atul is saying between Rs.18 Crores to Rs.20000 Crores we should start to see operating leverage come through, that is the point.
- Sunil Tirumalai:** Got it so over let us say three-year timeframe how do you see the mortgage both legacy and subsidiary business loan book as a percentage of consol where are you headed to?
- Rajeev Jain:** We are headed exactly between 30% and 35% that is really where it will anchor at, we are 29% today, we will remain between 30% and 35%.
- Sunil Tirumalai:** Right and with similar...?
- Rajeev Jain:** So that we ensure to deliver 3% return on asset to our shareholder and 18% to 20% ROE.
- Sunil Tirumalai:** Right which then probably assumes a similar mix between LAP developer and...?
- Rajeev Jain:** Yes... even in the mortgage business as well yes.
- Sunil Tirumalai:** Okay thank you.
- Moderator:** Thank you. Our next question is from the line of Rahil Shah from Ambit Capital. Please go ahead.
- Rahil Shah:** Sir my first question is on corporate and retail deposits Sir you mentioned that you are planning to increase the share from 15% to 20% to 25% in next 18 months so I was just trying to understand what will drive this growth and like what are rates or tenure at which we are sourcing this corporate deposits?
- Rajeev Jain:** So Fundamentally look you meant corporate deposit or retail deposit?
- Rahil Shah:** Both. So, you have given combined targets so if you can also help me understand what would be the mix which...?
- Rajeev Jain:** 60%-65% of deposit balance sheet is retail and 40% is corporate thereabouts 2% to 3% plus or minus and so that is one. If you were to place three-year deposit today with assets of company it is at a coupon of 8.50% and if you are an existing customer, you would get another 25 basis points so that is 8.75% is the coupon you would get for a three-year deposit. It is an SLR cost and then there is cost of acquisition, net-net it lands up being very close to where we see bank borrowings and incrementally and city market to be.
- Rahil Shah:** Okay fine and Sir what about the corporate deposit because like....?

- Rajeev Jain:** Corporate deposit do not go by the coupon, they operate more like corporate market. Essentially it moves a line with what is the same corporate may participate in a debenture may participate in a deposit program. So, they are more bilateral in nature and much more market driven.
- Rahil Shah:** So that ACR would be similar to what they are getting in the bond market?
- Rajeev Jain:** They would be in bond market yes.
- Rahil Shah:** Okay and Sir second question on commercial lending business so I mean the book has been growing at very high pace so what is the competitive advantage we have in this segment. So, like earlier if I can understand is we have advantage of lower cost of funds, but now since the cost of funds have increased and we are also cautious and doing large chunky loan accounts. So, if you can throw some color in this segment commercial lending?
- Rajeev Jain:** Look if you go to slide 36 wholesale businesses are about domain understanding otherwise they remain reasonably vanilla in nature. The top two businesses which are out of 5.3%, 4.3% of the business we can claim the understanding well and the domain experience fundamentally means we can manage the growth of these businesses. Otherwise, they remain in generally vanilla businesses. So, they are relationship oriented and we understand the domain well. If you are asking me very specific comparative advantage I would struggle to find the one not for us about the entire wholesale businesses anywhere in the world.
- Rahil Shah:** Okay fine understood and Sir last question in your loan against security business so given I mean the equity market is not doing well so what kind of LTVs like we have given loans on and how we are managing it?
- Rajeev Jain:** We are not allowed to do more than 50% by SEBI, we have always remained in that range, even there we have categorization of securities. So, in general portfolio of Rs.6472 Crores will sit at 43%, 44% LTV.
- Rahil Shah:** Okay so since the market is like normally down by 5%, 10% so we will ask for more securities or...?
- Rajeev Jain:** Yes, either the client gives a top up, we deal essential with high network and ultra-high network customers so either they provide cash margin or stock margin or they tell us that please liquidate the security either one of them is an option available to the client.
- Rahil Shah:** Okay fine understood. Thank you.

- Moderator:** Thank you. We will take the next question from the line of Nishchint Chawathe from Kotak Securities. Please go ahead.
- Nishchint Chawathe:** My question actually pertains to fee income and I was just trying to reconcile the fee income ratio that you have put out on slide 29 and the fee income that you are disclosing in the regulatory disclosure. So, I was trying to understand as to how does this add up? Fee income to PBT I think works out to around Rs.1600 Crores last year and I think on the regulatory disclosure you have put somewhere close to around Rs.450 odd Crores?
- Rajeev Jain:** So Nishchint, what you see in regulatory reporting as fees and commission is basically what we levy on the customer for EMI cards fee and AMC charges on it, Flexi fees and so on and so forth whereas the definition that we have used for fees to profit in the presentation, which has been given in the slide itself, it includes things like penal interest and foreclosure charges, processing fees and thus the two numbers are not comparable.
- Nishchint Chawathe:** Okay is that the only difference?
- Rajeev Jain:** Yes.
- Nishchint Chawathe:** Subvention would come in....?
- Rajeev Jain:** It will come in interest income.
- Nishchint Chawathe:** Okay and if you could kind of give some broad breakup of this Rs.1600-odd Crores, very roughly in terms of how much is coming in from customers and how much come from distribution of products or anything of that sort?
- Rajeev Jain:** Rs.1600 Crores I am quite interested. 38% of PBT shows that processing fees, EMI card fees, that is the last thing that was left in the entire business model and I might as well tell you that as well I mean now you want me to tell you how much admin income, how much penal income, how much for...come on Nishchint, I mean nobody as this kind of disclosure and now it will just say disclosure now on that metric you want to give you five variables, please.
- Nishchint Chawathe:** I think Rs.1600 was a large number, but anyway I will leave it to you.
- Rajeev Jain:** That too on a call with 300 people.
- Sandeep Jain:** That will also include processing fees which post Ind-AS has been grouped under interest income. processing fees is a larger component of the 1600 Crores that we are talking about.

Apart from processing fees, we have credit card revenue poll, write off recovery, penal income, foreclosure income, EMI card fee and so on and so forth.

Nishchint Chawathe: Even insurance distribution would be a part of this?

Sandeep Jain: Yes, the commission for selling insurance is part of this.

Nishchint Chawathe: Okay thank you very much.

Moderator: Thank you. We will take the next question from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma: Congratulations on good set of number Sir, Sir one just on first of all the rural piece, I mean year-on-year I now we are not looking at sequential uptick but year-on-year some sort of increase in NPAs anything specific to read into that will be the first question and second would be in terms of I mean you partly answered that question on, there is no change in terms of growth outlook for both the standalone business and BHFL but this is specific to BHFL just wanted to clarify because we were thinking that ramp up in terms of the book would be quite strong so do we still remain on course in terms of the ramp up of the book I mean given how the markets have sort of transpired in last 15-30 days that would be two questions Sir?

Rajeev Jain: So, look assumption on the table is that if the liquidity squeeze, crunch should normalize in 50 to 55 days, we have already exactly headed towards the first anniversary. September 22, 2018 is when it started so we are in October 23, 2018. In general, crisis of 2008 or 2013 lasted 50 to 55 days. Things should normalize during the period, this is more of a sector-specific risk so let us see how long it plays out. There will be credit separation that is very clearly emerging evident to me even I would like to believe that we have a good business, which is well governed, we should be beneficiary of it or amongst the first beneficiary of that dislocation as it normalizes we should be one of the first beneficiaries. So, I expect things to normalize in 25 to 30-odd days and this confidence coming back and things started to move. That is an assumption or empirical evidence, but I cannot predict that is really how it will move. On second point, go to slide 41. If you see in general you can see credit quality remains strong, the only blip is the rural business from 0.78%, you see 1.26%, this will... as the portfolio matures gravitate between 1.25% to 1.5% that is natural as Atul is clarifying to me that the rural business has B2B and B2C. I club it together and as you can see as the way of B2C growth that is the point is making that B2C itself is 1.66% versus B2B of 1.08% so as Atul is clarifying to me and it is a correct point that as the way to B2C which is longer way, assets increases you will see the number move, this will settle at around 1.5% is what our estimate is, but we are very comfortable across all these lines of

businesses with the stand on from a credit risk standpoint and we think we are in a good place from the risk stand.

Ashish Sharma: Okay and just on the housing finance business I mean this current sort of environment where we have seen the few places are being little cautious and sort of vacating the market does that put BHFL in a more of a sweet spot because we were anyways focusing on direct to the customer approach so is it more of positive I mean leave aside that the funding side but from the demand perspective?

Rajeev Jain: Ashish, a 30-day transient change, I would not articulate it as a structural change and as I said earlier that we want to manage the growth that we can manage. We do not want to be opportunistic about it that let us grow rapidly or let us grow slowly. I think this is the growth we can manage between Rs.1300 Crores to Rs.1500 Crores of monthly acquisition at this point in time and we are comfortable with the growth and as we make the business model more solid maybe we can generate greater confidence in growing more rapidly in the next fiscal.

Ashish Sharma: Okay perfect that will be all, thank you and all the best for the next quarter Sir.

Moderator: Thank you. We take the next question from the line of Sameer Kulkarni from Autus Securities. Please go ahead.

Sameer Kulkarni: What key regulatory or business risks do you foresee in the near to medium term?

Rajeev Jain: Regulatory risk I am reading and listening to the same Television, as you are reading. One of the points was made two weeks ago based on the monetary policy if you go to our slide 23 where one of the areas that could foresee some degree of regulatory change as the permissible cumulative gap of -15% over a period of time could become -5%, -10%, I mean I would take a shot at -5% or -10% not take a 0% that would be an extremely aggressive position, is one of the areas that you may see changing that will ensure that the over-reliance on short-term markets, which is one of the concerns could be structurally addressed. I am not saying this would happen but I am saying it, but as you can see we are quite comfortably placed. Non-banks will not be impacted by it all because they all lend between 36 to 42 months tenure which means average tenure 20 or 24 months, which means generate natural liquidity. Wholesale businesses, mortgage businesses may see pressure as a result of this is what my personal view is, need not be right.

Sameer Kulkarni: About our businesses on the NPA side or any of the segments, which are likely to having issues in the near to medium term? On businesses side like we have seen a little bit spike in the rural NPAs how are seeing any other risk arising from any of the segment?

- Rajeev Jain:** As mentioned to the previous gentlemen that and as Atul rightly articulated as the portfolio matures and adds the weight between rural business itself is what you see is Rs.7439 Crores in panel 41 has six, seven businesses sitting there. We are not showing them separately because they do not have the economic size yet in the balance sheet of Rs.10000 Crores, rural B2B and rural B2c that will provide greater clarity and direction so that you do not see 0.78% versus 1.26%, but net-net in the short term this number will settle around 1.5% is what I was saying to the previous gentlemen. We are quite comfortable with it all the way up to 1.5%, 1.6%.
- Sameer Kulkarni:** Sir in the initial comment it was said in home loan from Rs. 31000 Crores Rs.1 lakh Crores you have gone to. so how do you see with this financial crisis moving up from Rs.1 lakh Crores, how do you see the business growing in the next five years?
- Rajeev Jain:** 25% to 27% balance sheet growth, we are committed to deliver to our shareholders on a sustainable basis, 20%-23% net income growth.
- Sameer Kulkarni:** Okay Sir thank you for the opportunity.
- Moderator:** Thank you. The next question is from the line of Kuntal Shah from Oaklane Capital. Please go ahead.
- Kuntal Shah:** I must congratulate you on the level of disclosure in transfer which has been taken to the next level and it is a refreshing change in the current cash deficit environment where your peers are especially beating around the bush so since you are in mood disclose two-pointed question, in IL&FS deal the tenants are different from IL&FS so is there an escrow on rental just to have....?
- Rajeev Jain:** if there is escrow in rentals all the money is coming to the escrow only.
- Kuntal Shah:** And they are marquee clients where you can take it?
- Rajeev Jain:** They are leading software from international and local.
- Kuntal Shah:** Secondly in loan against share security how granular is your concentration of lending to promoters, we have seen recently some NBFCs becoming quasi promoter of the company post conversion so are there specifically power of attorney kind of deals where you have taken power of attorney and given the loans?
- Rajeev Jain:** First of all, we have power of attorney business Kuntal. That, in our assessment is a regulatory violation so I must make that point because it amounts to one not disclosing is the first point I must make, we do have out of of Rs.6400-odd Crores, there is around

Rs.500-odd Crores of loan against promoter lending exposures would be there but they are very, very marquee names and we have long deep relationships with them and they are all....

Kuntal Shah: But is there gap on what amount of percentage of company's equity you will lend to?

Rajeev Jain: Yes of course they are internal metrics but at the time if I may just articulate like in two weeks ago, there was instance of one of the exposures where we have, there was a disclosure because we were crossing 5% because it can happen occasionally let me make that point, but we are very comfortable with the people that we are dealing with is the limited point of view. When it comes to lending we would be comfortable with the promoter that we are dealing with, they are all of course in current environment AAA is not good enough, we ourselves are shocked by the AAA failure and I have one beauty in that. So, AAA is not go by, we are quite comfortable with the exposures, they have tested volatility many times over and we remain comfortable.

Kuntal Shah: Okay I am not that great fan of rating agencies but how much of your portfolio would be under rating watch or negative rating moment downwards?

Rajeev Jain: So that essentially would be the commercial business Kuntal that is 5% of overall balance sheet, in general as we can see, off the 5%, 3% is out of component, off the 3%, 1.8% would be A rated client, off the 3.2%, financial institutions in general would all be rated or 80% would be rated but more important they would have upwards of 25% capital as Tier-1 capital adequacy, which I think is far more important than rating the exposure that is reasonably granular in nature, light engineering 0.7%, out of Rs.664 Crores of the portfolio again 60%, 65% would be A rated so on and so forth.

Kuntal Shah: If you were chosen to amortize the cost of manpower and other cost in BHFL also so what would numbers look like?

Rajeev Jain: We never did the number. If we have done the numbers, we would chase that numbers so might still not do the numbers?

Kuntal Shah: Anyhow that would be all but again once again congratulations on...?

Rajeev Jain: One more see it is not we did not want to, I mean this may be we never did the numbers, I mean because it does not chase that numbers.

Kuntal Shah: Thanks for taking my call and I am extremely happy with the transparency and disclosure. Thanks once again.

- Moderator:** Thank you. The next question is from the line of Gaurav Jangale from Bernstein. Please go ahead.
- Gaurav Jangale:** Hi two questions from my side, first one is given that AUM has now crossed Rs.1 lakh Crores deposit though they are increasing still 15% of running profile so at what AUM size would you consider it necessary to shift from an NBFC format to bank format?
- Rajeev Jain:** It is a valid question, so I would say either in the next few years horizon we get 30% of liability profile to reach the corporate deposit. If we do not manage to do that and there is no urgency for it, but I would put milestone there that in next few years we get from 15% to 30%, we could get from 1% to 15% given the strength of the brand and the strength of the operating company in the last five years from 1 to 15, technically I could argue we could get and it took us time to build the distribution we do retail deposits only in 50 cities in India today. We now intend to accelerate that our cross-sell rates on our existing franchisees are low, we expect to accelerate that. If we got to 30% in the next few years, why the bank. If we do not get to be 30% may be we had to be a bank and 30 is magic number. I am just giving you a directional response.
- Gaurav Jangale:** Just a small followup on that and how was the eligibility workout and the licensing condition for them, about the eligibility...?
- Rajeev Jain:** Oh eligibility, okay. We expect that I mean strangely since the on-cap banking guidelines came in nobody has applied. So, we do not even know what the regulator's stance would be, but we would qualify based on the income and profitability of the group. We will not be qualified as an industrial house is what my assessment is by March 2019. So technically we will not be qualified as an industrial house in I think March 2018 itself but I am confident on March 2019 so subject to if we did not get to 30%, if we chose to apply and RBI considered us fit and proper, we should be on the phase of it eligible to apply March 2019.
- Gaurav Jangale:** Okay and my second question is on the ALM that has been shown slide 23 so it has been shown on behavioralized basis, but if we have to exclude the prepayment how much would the one month and 12-month gap percentages come out to?
- Rajeev Jain:** Just a structural liquidity. So, we report only behaviouralized ALM because that is requirement of RBI, the prepayment typically ranges between, particularly for margin business, between 2% to 3% kind of corridor, all put together Rs.1000 Crores is the prepayment that we see monthly.
- Gaurav Jangale:** Okay so 1358 will go down by 1000.

- Rajeev Jain:** Gaurav I must just make an important point that in general because this is a financial market event rather than a credit event or a mark or broader economic event, we do not see difference between behavioralized and structural. Of course, one could argue in same way I am only making a counterpoint that if the economic activity... if the comparative activity closed on, the balance transfer rate will slow down. So far in the one month since this event happened we will not either things play out, we will also not see prepayment slow down in any given manner so neither have we seen our customer prepaying slow down nor BT out or BT in both have not slowed down in any given manner. So, it is more of a financial market even rather than a broader economic event.
- Gaurav Jangale:** Okay that is helpful. Thank you.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the floor back to Mr. Karan Singh Uberoi for closing comments. Over to you Sir!
- Karan Singh Uberoi:** On behalf of JM financial, I would like to thank Mr. Rajeev Jain and the senior management team of Bajaj Finance and all the participants for joining us on the call today. Thank you and good Bye!
- Rajeev Jain:** Thank you Karan.
- Moderator:** Ladies and gentlemen on behalf of JM Financial that concludes this conference. Thank you for joining us and you may now disconnect your lines.