"Bajaj Finance Q3FY13 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Bajaj Finance Q3FY13 Earnings Conference Call hosted by JM Financials Institutional Securities. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing * followed by 0 on your touchtone telephone. I would now like to hand over the conference to Mr. Amey Sathe from JM Financial Institutional Securities. Thank you and over to you sir.

Amey Sathe: Yes. Thanks a lot. Good afternoon everybody and welcome to Bajaj Finance's earnings call to discuss the Q3FY13 numbers. To discuss the results we have on the call Mr. Rajeev Jain – CEO of the company; Mr. Pankaj Thadani – CFO of the company. May I request Mr. Rajeev Jain to take us through the financial highlights subsequent to which we can open the floor for the Q&A session. Over to you sir.

Rajeev Jain: Thank you Amey. Good afternoon to all of you on the call. I have with me Mr. Pankaj Thadani who is our CFO. We have uploaded the latest version of our Q3 investor presentation on our website. You would be able to go and download it from there. There is a section of management discussion that we have actually put there on slide #10 and #11 that I would refer to. Very quickly I would give you a snapshot of business, the business as to how Q3 has actually gone. Overall FY13 continues to remain reasonably strong for us. For 9 months of the year our assets under management are up 41%; our NII is up 34%; our loan loses up only 20% and PAT is up 44%. We have ended 9 months of the year at a PAT of 428 crores which is higher than the full year PAT last year of FY12. Closer home in Q3 we ended the quarter close to 17.000 crores of assets under management. We delivered the highest profit after tax at 160 crores, pre tax profit growth was 237 crores, a growth of 33% and 34% respectively. Loan loss provisions for the quarter were up from 36 crores to 51 crores on a quarter on quarter basis which is up 42% included a one time impact of a infra loan which contributed to around 7.5 crores that we took in the current quarter. So adjusted for that the numbers would have otherwise been 44 crores. Having said that this is business as usual, but given that it is a chunky item, I am sharing the same given the chunkiness of the transaction. As a business, two wheeler business continue to grow despite the fact that for quarter three as well Bajaj Auto's overall sales were very soft. Our overall penetration in festival season normally goes up. The same thing happened in Q3 last year and same thing has happened in the current quarter as well. We have contributed to around 30% of Bajaj Auto's domestic sales of two wheelers versus 26-27% in the first half of the year. Our direct cash collection business which we created for the rural business is now very stable and now contributes to around 40% of the overall two wheeler lending. We are continuing to grow our three-wheeler and commercial vehicle business; that business of Bajaj Auto is doing reasonable well. So it helps us continue to grow the overall two-wheeler and three-wheeler business. The market share of the three-wheeler business until last year used to be around 9%. That has now increased to around 15% in the 9 months of the year. In the consumer durable business, we think the overall growth, the consumer electronics sales growth probably in value terms would be 6-8%. Our growth has been in the region of 24-25%. Overall the demand, benign competitive environment, strong sales stimulus that we continue to provide both to our retailers and to our manufactures and growing in need of finance for pushing the premium product I think helps us continue to grow significantly higher than the market place. We estimate our market share to be at around 14% versus 11% in the previous year. We also added to continue to expand our coverage in the business. We added 9 new locations in the consumer durable financing business taking our overall location to 90 locations in this business. The SME business is, which are mortgages business, business loans, business in loans against securities business continue to grow. We also launched on first of January the home loan for salaried business. With that we now have a full suite of mortgage businesses; we offer loan against property. That is a five year old business. We also have been doing home loans for self employed for the last three years and we have now launched home loans for salaried. We also do lease rental discounting for retail and for corporate lease rental discounting as well. So it gives us widest coverage in terms of the mortgage business, so other than developer financing we offer all products that Mortgage Company essentially offers. Our business loans business and loans against securities business continue to be very steady. We continue to have a gradual expansion of the geographic framework in the SME business as well. We have offices in 90 cities as I mentioned earlier in the consumer business. So we in a gradual manner ride on our existing infrastructure and the branch network that we have to also expand our SME businesses. We added 12 new hub and spoke in the current quarter and also added 5 new cities taking our overall coverage to 49 cities in the SME business in the current quarter. As I said over the last piece is the commercial business that as a section of infra commercial business and our auto component financing business, the infra commercial business continue to de-grow overall at the commercial business de-grew in the current quarter by around 42%. Last year third quarter our overall disbursals were close to 1260 odd crores. This quarter this is only 731 crores. A large part of that growth has actually also come from the auto component financing business rather than the infra and the construction equipment financing business. Both these businesses we had a very cautious view on the business over the last now close to five quarters. Their contribution to the overall book has actually now gone down to less than 6-7% of the overall book from 12-13% which it was in March 2012. Both these books are de-growing. Construction equipment is largely a term lending book so every month the attrition rates are much faster than the infra business. There were no new sanctions in the infra business in the current quarter. Auto and component financing business continues to grow in a stable manner. It is a good quarter for the business and we are now expanding the scope of this business from having to just work from Bajaj Auto vendors to other large principles and their auto ancillary vendors as well. Interest cost continues to be steady. We continue to be reasonably conservative on ALM as a company. So we continue to raise despite having a reasonably clear view that the interest rates are going to head downwards in a reasonable degree of moderation in the next fiscal. We continue to still borrow long a part of the book to make sure that we don’t create structural liquidity issues in our overall borrowing book. Gross NPA and net NPA were very stable. They remain stable at gross NPA was 1%, net NPA was at 20 basis point. Portfolio matrix across business except construction equipment continue to remain, I would use the word very strong. We were also beginning to see some level of improvement in the overall credit matrix as a business across businesses other than the construction equipment business. Construction equipment business on the other hand deteriorated further. It also deteriorated because the good book is running away quickly so what we are left with is, so the denominator is also going down. So that is also one of the reason or the causes for it, but despite that book is deteriorated reasonably sharply. I think that these are really the point on the business that I thought that I should share with you. The board has also approved just as a last point to raise 743 crores of, our SEBI has approved our draft letter of filing. As a result of that the board today has approved raising 743 crores worth of fresh equity through rights in a ratio of 3:19 which would be 16% dilution amounting to 67.6 lakh new share to the existing shareholders of Bajaj Finance at a price of Rs. 1100 which is a today's price at a discount of 22%. So that is all I have to share. Me and Pankaj are open to take any questions that there might be.

Moderator: Thank you sir. Participants we will now begin with the question and answer session. We have the first question from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma: Just one question on first of all this two-wheeler business here, we have sort of increased market share. Is there any sort of a threshold limit as to this is the number beyond which we will not be sort of doing financing for Bajaj vehicles, I mean we have moved to 30% from 24%. Is there any threshold limit in mind?

Rajeev Jain: Ashish, as I said you will see even if you go by actually the previous investor presentation as I said earlier as well, during festival season we normally see an uptake in the penetration. It will go back to 26-27% in the following quarter. 100 basis points here and there, but you would see the number holding at between 26-28% on a quarterly basis.

Ashish Sharma: But I mean, I am just assuming that there would be some sort of a slow down in two-wheeler sales, the only way we have to sustain our traction in this segment is to sort of increase market share?

Rajeev Jain: We are not going to grow just for the sake of growing Ashish and that is why over the last 18-20 months now we have been gradually building the three-wheeler and the commercial business. We had negligible presence in the business let us say 3-4 years ago. Over the last 24 months ago we realized that this could be a business opportunity as well. So we started to grow that business. That business fortunately continues to do well for Bajaj Auto as well. The small intra city commercial vehicle and the three-wheeler continues to do well. So we don't want to grow what is not growing, we would rather aid growth as I keep saying rather than create growth.

Ashish Sharma: Okay and you mentioned about CV sort of a focus area, I mean right now I think it is only three-wheelers of Bajaj financing. Is there a strategy to focus on non Bajaj in CV or I mean?

Rajeev Jain: Neither in two-wheeler nor in three-wheeler or commercial vehicle in that sense. It is essentially in this business to essentially work with Bajaj Auto in partnership to grow the business.

Ashish Sharma: And just going by your disbursements, there has been sort of a marked increase in small business loans disbursements in Q3. Do you think this will be a sort of a focus area going forward and we will continue to see the same traction now?

Rajeev Jain: That is correct.

Ashish Sharma: I mean this 500 crores sort of disbursement in quarterly is not a one time phenomena, I mean we can sort of maintain this traction?

Rajeev Jain: We have disbursed 1521 crores, yes. We would think it would probably grow.

Ashish Sharma: And on provisioning you mentioned that you provided around 7.5 crores for one infra account which is sort of going to be part of our CDR package. I mean any accelerated provisioning we have provided this quarter?

Rajeev Jain: No it is part of the CDR package, whatever has got accepted, so that is an interest sacrifice that we have had to take and that is what is being provided for. We cannot deviate from the terms of the CDR that have been approved.

Ashish Sharma: Surely. Just one last question Rajeev, in terms of guidance for AUM growth for FY14 based on the overall…

Rajeev Jain: In the middle of the rights transactions I am surprised my merchant bankers are not sitting next to me. But you know whatever brokerage I have said and as you can see here at 17,000 crores we are reasonably confident of achieving what most brokerages have guided to be.

Moderator: Thank you. We have the next question from the line of Manish Ostwal from KR Choksey. Please go ahead.

Manish Ostwal: My first question was your non interest income declined sequentially. So what is the reason for that and secondly and is there any component of treasury related income in those line items so that…?

Pankaj Thadani: We don't do treasury related business. I am Pankaj here. Only component of treasury income is that is just the deployment of surplus fund, which we have on temporary because there is a timing mismatch between our collections and our disbursals. So to that extent we put in liquid fund, only that component remains. There is nothing more to it. This is based on our penetration, the items that are covered in this is whatever the penal interest we earn from customers, our insurance distribution, our bad debt recoveries and this little bit of treasury, whatever you know daily surpluses.

Mangement1: It is the overall contribution to. It is reasonably small in terms of the overall income.

Manish Ostwal: I mean the line item I am referring is the other operating income which should grow in line with your AUM growth. So this growth it is slightly on a lower side. That is why I am asking that question.

Rajeev Jain: No, there were no one timers in the previous quarters and there is no one timers now.

Manish Ostwal: Secondly, these 51 crores of provisioning, do we have any provisioning for extended asset during the quarter?

Rajeev Jain: Yes of course, this includes whatever is the AUM growth anywhere between 25 basis points to 40 basis points.

Manish Ostwal: What are the cumulative figures **f**or extended provisioning in the books?

Rajeev Jain: What is the amount, is it?

Manish Ostwal: Yes.

Rajeev Jain: So you could safely assume on 17,000 crores, so AR in the business is 16,300 crores. While it would be part of the overall balance sheet for previous year and this year, you could safely assume it to be a 30 to 35 basis points number. So 16,300 into 35 basis points will mean around 50-55 crores, that is correct right?

Pankaj Thadani: Yes.

Manish Ostwal: And lastly I am referring the slide #11 of presentation. In the point #2, it is written that the dip in the last 30 days is 50-60 basis points occurs tenures in the money market. So what will be the impact of the decline in the cost of funds on the margins, whether your margins tend to increase in coming quarters or what would be the outlook in that?

Rajeev Jain: Look, fundamentally whole lot of our businesses are fixed interest rate businesses. A whole lot of our borrowings are also fixed interest rate businesses. Now it will all be dependent on what is the level of cut and how quickly through the year they come if the large part of it is what I am hearing in media is about first half of the year seeing more aggressive cuts, you could safely assume a 50-55% of that could be and bank have not transmitted and if they do transmit rates gets cut, banks do transmission, a lot of our borrowing is on variable interest rate. A lot of our lending is on variable and a lot of our lending is also on fixed. I would say on a full year basis 40% of whatever gets transmitted, you know whatever is the rate cut that happen could be a fair number in the P&L that could flow. But having said that I would state to you there are too much conjecture in the statement that I made, so your guess is good as mine.

Manish Ostwal: Yes sir. This infra commercial business what we have seen, there was no new sanction in the infra financing business quarter 3 end, day to date what is status?

Rajeev Jain: No, in the first 9 months of the year we have not sanctioned anything?

Manish Ostwal: Sir, this business we have tighten the credit origination norms or we set the business for sometime?

Rajeev Jain: You could say both. Two things, one what we would like is credit that appetite at a market level has actually slowed significantly and too clearly we have also tightened internally, given what is happening at a macro level, given what we are seeing in construction equipment, we would rather be wise than to be sorry.

Manish Ostwal: And lastly sir could you give us the impact of moving from 180 days to 90 days in your book?

Rajeev Jain: So there are two pieces, first of course the guidelines would get inked. That number from 90 days to 180 days will be less than 15 crores for us. There is also a number which is 25 basis points of general provisions to 40 basis points. That number would be another 15-17 crores. So combined impact of both of them would be in the region of 30-32 crores kind of thing.

Moderator: Thank you. We have the next question from the line of Swanand Kelkar from Morgan Stanley. Please go ahead.

Swanand Kelkar: Quick question more on the business side of things which I am looking at your matrix on page #8 which was the products that you sell. Commercial side of things is obviously going through some kind of a pain right? Construction equipment and infrastructure finance. So can you give us some kind of guidance in terms of the next 12-18 months in terms of fresh businesses that you are looking at? What are some of the areas which you could term as a white list as businesses that you want to enter into and blacklist as well the businesses that you don't want to touch at all. So some kind of a broad direction in terms of how this matrix could shape up over the next 12-18 months.

Rajeev Jain: As I said Swanand, we like to aid growth rather than create growth and I think that is the mantra. So we don't have blacklist, I think we are committed to all the nine businesses that we are in, but there may be times when we would take the foot of the accelerator as a company to not create an adverse selection and as a result the infrastructure business and the construction equipment business over the last five quarters you have taken the foot of the accelerator. So that is point #1. We think the consumer demand, that is point #1. So I would have a grey list rather than a blacklist. As a business we think given our relative size as a company we see continue to see significant opportunities in consumer SME and commercial businesses. But I think commercial businesses which is both intra commercial businesses may take at least 9-12 months time before they come back to a growth mode. So that leaves us with 7 businesses. We see reasonably significant growth opportunities in all those seven lines of businesses. We are evaluating one or two lines of business that I am not unfortunately at this point in time in a position to share and that is not so much from a 12-18 months profit horizon but a 3-4 year profit horizon. So even if they get kicked off, they will not contribute significant to our profit or the AUM growth, they will more likely contribute in the next 3-4 years' time.

Swanand Kelkar: If you were to think about the mix over the next 12-18 months you would say broadly the mix would be similar, these 7 buckets two of which you want to take the pedal up.

Rajeev Jain: That is correct. So you would see the consumer businesses to be around between 40 and 41 or 39 and 42, and SME may go up to 48-49 given that the commercial business will remain slow for the next 12-15 months and commercial may come down to the balance which is 7-8 % and in that a larger part of it would be contributed by the auto component financing business.

Swanand Kelkar: And when you are seeding this new business which you mentioned that you have couple of them on the drawing board, what are the kind of early warning signals that you look for in terms of these businesses seem to be not on track to what we have expected. So what are some of the warning signals that you look for in your internal MIS?

Rajeev Jain: It differs business to business, I mean in the consumer businesses you would even look at things like the first installment bounds to third payment default to. I think is a reasonably, one other thing that we take pride in, Swanand, over the last five years is having built a reasonably deep risk analytic capability across lines of businesses to know early warnings. I think we were one of the few companies who started to say virtually five quarters ago that construction equipment is stressed. Now everybody saying construction equipment and infra is stressed. So I would say ears to the ground is one part and second part is very clearly deep investment in analytic capability in the risk side and I am looking it through a prism of multiple matrix to make sure we are not out in line with the business and it is reflective in the same presentation with if you see the credit performance on slide #18 and #19, you could say, have you decided 97.9 to 98 is the number because I think just in consumer electronics loan portfolio we bank 15 lakh customer is what we have banked in January. So unless and until we have invested deep and we know what matrix are the drivers or the triggers of the business cause what to happen it is tough to deliver 98% of them which is on 15 lakhs only 2% which is at a bounce rate of 7%, only 7% of the customers bounce, 93% clear out of the 15 lakhs every months on month and we look at business by business, consumer electronics to two-wheelers in an environment that we are looking at, I think all our businesses whether consumer or SME other than the construction equipment have held very steady or have actually improved their performance through the last if I take 6-8 quarters.

Moderator: Thank you. We have the next question from the line if Hiren Dasani from Goldman Sachs. Please go ahead.

Hiren Dasani: Couple of data points first, outstanding borrowing numbers, disbursement in the two-wheeler side and the AUM outstanding on the two-wheeler side please?

Rajeev Jain: AUM outstanding on the two-wheeler side would be around 15-16% of the book, so let us say that 16,844 into 17-18% of the book. All our outstanding borrowing, I think is 13,400 crores.

Hiren Dasani: And disbursement share also of the two-wheeler would be similar?

Rajeev Jain: Yes it would be similar; it may be probably be lower actually. That would be 14-15% but the asset contribution may be higher. These are 24 months tenure versus consumer electronics which are 8-9 months tenure.

Hiren Dasani: Correct me if I am wrong, but the subvention amount which you get on your consumer durable business that gets booked in the interest income only right? or income from operations?

Rajeev Jain: It is interest income, yes, that is correct.

Hiren Dasani: Okay, then what explains the quarterly volatility of the other operating income?

Rajeev Jain: As we said earlier what happens is it is broken up into as Pankaj had said a part of it is insurance income. A part of it is penal, a part of it is bad debt recoveries.

Pankaj Thadani: **A**nd the last says some income on temporary deployment of idle fund.

Rajeev Jain: Which is much smaller.

Pankaj Thadani: Which is very small.

Rajeev Jain: So there are no one timers as I said earlier which explains it, but what happens having said that I would say to you Hiren is that the consumer businesses insurance penetration is lower historically because that is a point of sale business. So at times this growth in disbursement may not necessarily reflect in the growth in other income because a lot of it is contributed by the insurance income.

Hiren Dasani: And last question is on the your overall operating expenses, if I look at it on a average asset basis, the annualized run-rate is more like 515-520 basis points now for the last couple of quarter which is significantly lower compared to what you used to be doing earlier. So is this a new level looking at your mix of the assets now or can it further go down?

Rajeev Jain: Yes I would think so. It could probably further go down marginally. Clearly operating leverage at some point in time had to start coming in and you could see a further some level of operating leverage lift in these matrix as we go from here but not too significant.

Moderator: Thank you. We have the next question from the line of Sayantan Bhowmick from Pine Bridge Investment. Please go ahead.

Sayantan Bhowmick: Just wanted to ask one question at tier I right now is about 14.5% and as per the new NBFC guidelines I think 10% is the tier I requirement. So just wanted to understand how the rights issue, what is the thought process for the rights issue, as in do we need that much capital?

Rajeev Jain: We raised money with a three years view at a point in time. There is nothing called timing it in that sense. We did do a preferential allotment to the promoters in 2011. We raised 400 crores, part of 350 crores came then and 330 odd crores came then and the balance came now in the previous quarter gone by. So we have raised this to essentially giving us the width as a balance sheet to go up to 35,000-36,000 crores in the next 2-3 years' time. So our internal benchmarks we believe, benchmark the business had having a Tier-1 of 12-12.5% that is how our profit models are designed. If we get 10% we will be quite happy but I think those are draft guidelines they need to get inked and as and when it happens it may mean either higher profitability or a lower threshold from a business model's standpoint to take a more aggressive stand on growing our market share.

Sayantan Bhowmick: Internally are the targets in terms of where our AUM would be two years down the line and which businesses would largely contribute to that?

Rajeev Jain: Due to the rights issue I am unable to articulate. Once we are done with it you could come and spend time with us and we can share with you, it is reasonably fine to do that.

Sayantan Bhowmick: Just one last question, any thoughts on bank licenses?

Rajeev Jain: You guys know much more than we know. We are not even sitting in Bombay.

Sayantan Bhowmick: Your intentions on that?

Rajeev Jain: Yes, we have stated our keenness to apply for one if the conditions are not too onerous, if there is a rightful economic model from a return on equity standpoint for the shareholders. If it is not onerous and it creates a rightful return on equity environment on a model, we would be keen to apply for a banking license.

Moderator: Thank you. We have the next question from the line if Srinivas Rao from Deutsche Bank. Please go ahead.

Srinivas Rao: I have two questions to ask, first is on your two-wheeler finance in your presentation I am assuming 30% of Bajaj would effectively be the entire total Bajaj bikes are financed, would that be a fair conclusion?

Rajeev Jain: 30% of Bajaj Auto is domestic sales, yes.

Srinivas Rao: And at least our understanding is that 30% of Bajaj Auto's domestic sales are financed, so you practically have almost a 100% share of Bajaj's finance.

Rajeev Jain: We have 80% share. So their overall financing contribution of the domestic sales is around 35-37%. We are financed in the last quarter 30%. So that would mean a between 80-85% is the kind of penetration levels that we have run at, now historically over 5 years. This translates to their overall financing is between 35 and 37%. We continue to hover between 26 and 30% as I said earlier and that is where we are and we have seen this number historically been here now for a long time.

Srinivas Rao: Sir my second question is actually on your surprising **(Inaudible) 34.26** that you are the largest consumer electronics lender in India considering that you are less present in the larger market, metro markets. Is that something which you think is surprising?

Rajeev Jain: No it is not surprising. We are very much present in all the top markets. So a larger part of the premium products movement, this year we would do close to 5000 crores of consumer electronics financing from Vijay Sales in Bombay, if you are from Bombay to Croma to Reliance Digital to name the retailers we have presence in over 3500 stores across the country. So it is not surprising. Our long term view would be that our penetration would only grow. Our penetration used to be 5%, 5 years ago it inched to 9%, it was 11%, and it is now at 14%. We think it could still be reasonably higher.

Srinivas Rao: And NPA levels are comparable to the yields which you get, can you throw some light on that?

Rajeev Jain: We don't discuss segment wise loss numbers, but if you look at slide #17 or #18 it tells you that 98% of the client have paid their installments. Only 2% of the clients who have not paid their installments including one installment. Now fundamentally you could safely assume that it is a 50-70 basis point loss rate business.

Srinivas Rao: And finally your strategy around this cobranded credit card?

Rajeev Jain: So we have a partnership with Standard Chartered Bank. We understand between 20 and 25% as their new acquisition at this point in time. The volumes are not large enough. That is really where we are.

Srinivas Rao: Is that some thing, I mean any reason for you to be in that part of the business of credit card, they have really not well grown in India from whatever data we have from RBI and all that.

Rajeev Jain: Even in the first half of the year the credit cards in force have actually dropped by 7-8%. So we think that is a reasonably large opportunity. It is the largest profit pool in the world. So we think there is an opportunity. We acquired millions of customers in the first 9 months of the year. We acquired 2.2 million customers that probably rank us as the largest, single largest acquirer of the new customer. 60% of these customers have a bureau score of 750 and above. So they are tested customers, so that creates a platform for us to create a credit card business sometime in future.

Srinivas Rao: But just as to clarify currently your revenue stream from this business would be limited to the whatever you make out of originating the customer, not from the spends over a period of time right?

Rajeev Jain: That is correct.

Moderator: Thank you. We have the next question from the line of Amin Pirani from Deutsche Bank. Please go ahead.

Amin Pirani: I don't know if this was covered earlier, but can you share what would be your share of the two-wheeler financing outside of Bajaj Auto?

Rajeev Jain: We don't do any two-wheeler financing outside of Bajaj.

Amin Pirani: So is that which you intent to continue in the medium term or would you be sourcing business?

Rajeev Jain: We will continue to essentially finance only Bajaj Auto's two-wheeler and three-wheelers and Commercial Vehicles.

Amin Pirani: And sir any thoughts on entering the four-wheeler financing business in the medium term, if that is not something which…..

Rajeev Jain: We don't have any such view at this point in time.

Moderator: Thank you. We have the next question from the line of Arpit Agrawal from Barclays. Please go ahead.

Arpit Agrawal: Two questions from my side. In your consumer electronics business, just wanted to understand what is your share in the total electronic finance, like you have 80% share in the Bajaj Vehicle financed?

Rajeev Jain: 40 Arpit, we estimate the market to be in the region of around 41,000-42,000 crores. We think between 5000-5500 crores is what we will disburse in the business. So that would essentially put us around.

Arpit Agrawal: No, but sir like 40,000 crores is the total sales and you are saying that 5000 crores is what you finance right?

Rajeev Jain: Between 5000 and 5500 crores is what we would finance.

Arpit Agrawal: And the other question is on your Mortgage business, what is the size of your mortgage book right now?

Rajeev Jain: Mortgage book between loan against property and home loans would be close to 6000 crores.

Arpit Agrawal: And currently it is mostly the non-salaried professionals.

Rajeev Jain: We **(Inaudible) 39.52** salaried home loan business in January 1st.

Arpit Agrawal: So just wanted to understand that could be a very large opportunity. So what would be your strategy there?

Rajeev Jain: We will target affluent salaried customer. We do affluent personal loans for salaried. We acquire in that business. We have been doing that business for three years. We acquire in that business close to 1500 customers every month. We have 20,000 odd customers in that business. We offer credit cards; we offer two-wheeler; we offer personal loan; we offer consumer electronics; we would now offer home loans to them; we offer loan against securities to them. Other than the four-wheeler somebody asked me a question, we have just got a board approval to actually start doing wealth management distribution. We want to do systematic investment plans distribution of leading mutual funds that virtually covers all that a client needs from us. So focus on affluent salaried with incomes of greater than 15 lakhs focus on 50 lakhs to 5 crores home loan customer, deliver efficient service, deliver total loans that is one of our key themes. We don't want to offer home loans alone. We will offer a line to a customer for home loan, give him a credit card bundle, give him a personal loan line, and give him a loan against securities line. We have launched the business in 20 cities and we hope to grow the business in a steady manner over the next 2-3 years.

Moderator: Thank you. We have the next question from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: My question was on disbursement in the SME segments. Now if you see for the 9 months, it shows about 42% growth but in the quarter it is 22% and we talked about small business loans doing extremely well. So what happens to the other pieces of the segment, LAP and LAF.

Rajeev Jain: Normally seasonally adjusted the quarter 3 on disbursements I don't mean sanctions it is softer in the mortgage business. Seasonally adjust disbursements, I don't mean sanctions. I see the data we are quite comfortable with the growth of the business. So you will see these numbers in the upwards of 25% as we go from here on a reasonable horizon.

Shyam Srinivasan: And my second question is on your cost of borrowings, so what has happened during the quarter I see you have given some commentary in the presentation but any other light that you could throw?

Rajeev Jain: See we have started to see, so lots of long term borrowing is coming to market at this point in time, we are seeing 5 year money is available at where the one year money was available two months ago. So we are seeing and I think this will continue. We have historically borrowed when others are not borrowing and that is what we will continue to do. So we never borrow during advance tax payment quarters or months and that is exactly what we continue to do. So we are seeing some level of benign activity which means softness in interest rates from a given what is the view on interest rates going forward from here. Pankaj wants to add something.

Pankaj Thadani: Yes, that is in the money market segment. But banks have still not transmitted. Although banks have CRR cuts in the last calendar has been around 175 basis point total but banks at best have transmitted 25 basis points, so you got to take a mixed bag. We have fair share of bank and money market borrowings.

Moderator: Thank you. We have the next question from the line of Subramanian Krishnan from Sundaram Mutual Fund.

Subramanian Krishnan: Sir, just a question on the competitive scenario especially in the consumer durable space, would you be having any data on the number of outlets where you were exclusive financier at some point of time and now we are seeing, others also enter?

Rajeev Jain: I would say, at least we don't see it as material activity. So I would not want to comment, we continue to remain reasonably dominant is what I would use from a language standpoint. So we do see Tata Capital is there in Croma stores but otherwise we continue to be reasonably dominant in most large format, medium format, and small format stores.

Moderator: Thank you. We have the next question from the line of Umang Shah from CIMB Ltd. Please go ahead.

Umang Shah: Rajeev, just wanted to check up in terms of your strategy on home loan in the salaried segment which you have started, now typically this business is considered to be a very low spread business and the competition definitely from banks and other NBFCs is also quite intense. So in view of this how do you see your return ratios to shape up over a period of time because obviously the size of this particular pool will keep on increasing over a period of time. So, on a steady state basis where do you see the return ratios kind of panning out?

Rajeev Jain: So 2-3 things, our long term view continues to be that a 3% post-tax ROAs are long term view on the business. I may sound a little bit like a broken record and but that continues to be a long term view that would get aided a little by the fact that the capital adequacy comes at 10% from a Tier-1 standpoint. That is point one, from a long term post-tax ROA standpoint. Coming close to the question that you asked me, I think our business is driven by ROE consideration, so we haven't lost clear view on that we are in business from a return on equity standpoint rather than creating a balance sheet. We are not doing this business to build a balance sheet. We already had 9 different businesses that we could grow to grow our balance sheet. It is the largest asset pool in the world. As I mentioned earlier, 60% of the consumer is durable customers are salaried. We have a large personal loans business; we do credit cards; we offer loans against all kinds of securities from Mutual fund securities to shares to Bajaj Alliance insurance policies. We needed to fit in home loan business and the last business which is a car loan business which we have taken a call on that we will not do given that we think globally only the captive succeed in doing a successful car loans business. We are doing it from a customer centric view with a large cross sell orientation rather than open market orientation. Our focus will clearly be on affluent if you look at the ticket sizes in the industry is at 20 lakhs-25 lakhs. Our ticket size we think would be because of our focus on affluent in upward of 60 lakhs and above. So the strategy that we have pursued in mortgages of home loans, self employed and on loan against property where our ticket sizes are significantly ahead of overall market. So that is the second part. The third part is clearly we will build reasonable amount of assignments/securitization pipeline with a view on ROE dynamics of the business and make sure that we will acquire a part of that and we must have the ability and the borrowing width to assign to institutions who do not have the ability to acquire such affluent customers for home loan business. So very broadly if I was to sketch, these are the three elements of the strategic framework.

Umang Shah: So just to understand one thing now, as you said the ticket sizes are expected to be much large enough in a upwards of Rs. 5-6 million. So obviously we don't enjoy the benefit in terms of the liability mix which probably banks or larger housing finance companies are enjoying currently. So to that extent would it be fair to assume that this business would be quite selective and probably to an existing clientele or where in you would have some leeway in terms of charging yields?

Rajeev Jain: The answer is partly yes, so it is not like we will do this business only as cross sell because we need a minimum economic size in the business, but there will be larger contribution from cross sell business. So I would just stay at that point.

Umang Shah: Just one last question. I might be bit repetitive but just wanted to understand your thought process that although it is pretty early and draft guidelines for banking license are yet to be out but given everything falls into place would you be interested in applying for one?

Rajeev Jain: Yes.

Moderator: Thank you. We have the next question from the line of Mangesh Kulkarni from Almondz Global Securities. Please go ahead.

Mangesh Kulkarni: Just wanted to know about our life style business like furniture financing and how that has span out in the last quarter?

Rajeev Jain: Mangesh, in the presentation on Page #9 we have now started to cover that what is our distribution in the lifestyle business. Now we are working with close to 600 retailers in 25 or 27 cities. So we continue to grow the business. It is growing slower than our expectations because one of our learning in the business has been that we are doing market making, in consumer electronics or in two-wheelers a whole lot of asset classes financing is established, whereas in furniture or in fitness equipment or in premium watches financing is not been established. So, retailers do not understand the business. So we have to do market making, we are quite continue to be very excited about the business. This business this year would do around 240-250 odd crores of disbursals which will be 5-6% of consumer electronic sales and we know based on research that these market organized and unorganized, it is 3x of the consumer electronics market. So we are continuing to invest in the business to grow the business.

Mangesh Kulkarni: And sir one more thing about restructuring like do we have any exposure to the outstanding CDRs which are under consideration?

Rajeev Jain: No, we don't have any. Other than this account we do not have any exposure to any of the CDR transactions which may be under consideration of the CDR sell.

Mangesh Kulkarni: Sir any further stress seen in the infra portfolio of our current portfolio?

Rajeev Jain: Not so far and I hope not.

Moderator: Thank you. We have the next question from the line of Dhaval Gala from Birla Sun Life Mutual Fund. Please go ahead.

Dhaval Gala: I had couple of questions, one I wanted to know what was our outstanding headcount in the company as on third quarter?

Rajeev Jain: That would be in the region of around 2500 people. This is on role headcount. We have another 3500 people between our subsidiary Bajaj Alliance staffing solution and Adecco. We will have another 5000 people there.

Dhaval Gala: 3.5 or 5?

Rajeev Jain: 3500 in one entity and another 1500, so 5000.

Dhaval Gala: So Bajaj Alliance Solution would have 3500 and these would be on commission to your company?

Rajeev Jain: These are contractor staffs.

Dhaval Gala: Other thing just wanted to understand may be on the OPEX front or cost-to-income front if I have to look at, we have been steadily improving on that front. You see there is significant further headroom of improvement or you would now look to do substantial investments on your OPEX headcount and branches front. So do we continue to maintain the momentum on the overall AUM growth which would be north of 30 odd percent or whatever be the number?

Rajeev Jain: One other thing we learned is don't do anything too quickly in lending business because it causes trouble. So we continue to do everything in a gradual manner. So even our geographic expansion we continue to do every 4-6 months add 4-5 locations, take them to a particular level and then expand further and so on and so forth. So we don't have just because we are raising capital we are not changing gears in anyway to put our foot on the accelerator. It may also mean to as I said earlier you may see some level of marginal improvement in the operating leverage or in cost-to-income ratio to what extent because of our mix of consumer SME and commercial, as the mix changes the operating leverage changes. So that is a little bit of derived number in that sense.

Dhaval Gala: But any which ways on one end we have also maintained that we will not be going significantly different from our current mix of the loan book in the times to come.

Rajeev Jain: That is correct.

Dhaval Gala: But then, ideally the number on total OPEX or NII or the cost to income which we consider should ideally remain at these levels?

Rajeev Jain: I would agree with you, in fact as I said you may see it marginally go down further. You may see it marginally improve as I said earlier.

Dhaval Gala: In an earlier interaction you always maintained and being on a conservative side that you would be always happy on making 300 to 350 bps on ROAs or return on assets and we have been consistently out pacing that number and we have been always been closer to 400 to 440 number in the last 6-8 quarters. What should be the ideal range which we should be looking at, because with the changing loan mix, would you see that ROA matrix going to the 350 level?

Rajeev Jain: Yes, that is correct. A change in the mix would cause something that we have been stating or articulating very clearly to people that a changing mix between consumer, SME, and commercial would be one of the reasons why a mix in the long run would look more like a 3% number.

Dhaval Gala: Lastly, I wanted to ask you was on your Tier-1 ratio and the risk weighted asset. If I can get an outstanding risk weighted assets number.

Rajeev Jain: We have 100% weights on every asset class. So as a non-bank we don't have different risk weights for different assets.

Dhaval Gala: So it will be the AR number, the 16,300 something would be a....

Pankaj Thadani: Plus some off balance sheet items, etc., also come into the picture, not only AR but other assets as well.

Dhaval Gala: Okay, sir may be 750 crores amount which you are looking to raise, where would be our Tier-1 ratio looking at, should it be 19 odd percent levels we will improve to?

Rajeev Jain: Correct. You will see 400 odd. So overall capital adequacy would move from 17.5% to around 22.75 odd percent if we rights issue successfully and we get all the money.

Dhaval Gala: Sir last question, what would be your comfort level on the overall capital adequacy and Tier-1 ratio where we will look to raise capital?

Rajeev Jain: We have said 23%. This question will become more relevant when we come back to 16-17. So we will answer it then. I think it will take care of our needs for next 2-3 years. If we see that Reserve Bank eventual guideline say 10%, we would still benchmark ourselves between 12-12.5% of Tier-1 from a internal profit model standpoint and if we can continue to raise 300 basis points of Tier-2 on an expanded equity base we would say 15% of Tier-1 of capital adequacy would be fair number until we go back to shareholders for capital raising.

Dhaval Gala: So ideally that should take care of at least 2-3 years' time after the current capital raise?

Rajeev Jain: That is correct.

Moderator: Thank you. That was the last question from the participants. I would now like to hand the floor to Mr. Amey Sathe for closing comments. Over to you sir.

Amey Sathe: Yes thanks. On behalf of JM Financial I would like to thank Mr. Rajeev Jain and Mr. Pankaj Thadani and all the participants for joining us on the call. Thanks a lot and good bye.

Rajeev Jain: Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of JM Financial Institutional Securities, that concludes this conference call. Thank you for joining. You may now disconnect your lines.