“Bajaj Finance Q3 FY19 Results Conference Call”

January 29, 2019

MANAGEMENT:	**MR. RAJEEV JAIN – MANAGING DIRECTOR, BAJAJ FINANCE LIMITED** **MR. SANDEEP JAIN – CHIEF FINANCIAL OFFICER, BAJAJ FINANCE LIMITED** **MR. ATUL JAIN – CEO, BAJAJ HOUSING FINANCE** **MR. ANUP SAHA – PRESIDENT (CONSUMER BUSINESS), BAJAJ FINANCE LIMITED**
MODERATOR:	**MR. KARAN SINGH – JM FINANCIAL**

Moderator: Ladies and gentlemen, Good day and welcome to the Bajaj Finance Q3 FY19 results conference call hosted by JM Financial.

I now hand the conference over to Mr. Karan Singh from JM financial. Thank you and over to you Sir.

Karan Singh: Thank you. Good evening everybody and welcome to Bajaj Finance's earnings call to discuss the third quarter FY19 results. To discuss the results, we have on the call Mr. Rajeev Jain who is the Managing Director, Mr. Sandeep Jain who is the Chief Financial Officer, Mr. Atul Jain who is CEO – Bajaj Housing Finance and Mr. Anup Saha – President (Consumer Finance Business). 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. We have uploaded in the investor section of our website, the Q3 investor presentation. I would request you to take a look at it. I am going to draw this call from there.

I will jump straight to Slide #15 which has the consolidated key performance highlights for Q3. Overall, it is a very strong quarter for the company given the tough liquidity conditions that the market saw especially for the first 45 days of the quarter. Customer franchise of the company grew 31% to 32.5 million customers. The company acquired a record 2.5 million new customers in Q3. Its cross-sell franchise grew by record 1.87 million new customers in just the third quarter. New loans booked were up 49% to 6.77 million loans. Net AUM grew just a tad below 10,000 crores, highest ever AR growth that we have seen ever actually. We virtually added a small NBFC of 10,000 crores in a quarter. So, it was a very strong momentum. Total income as a result grew 48%.

Operating expenses is the theme for the current year. I didn't believe that we will make so much headway, getting into the year. It used to be 39% in Q3 FY18. We were really focusing on it but I didn't believe that we will get here. We ended the quarter at approximately 35% OPEX to NIM ratio. Loan losses and provisions were 454 crs. Stage 3 provisions were up 59%, which is on Slide #16. I will draw a reference from that. The company took an accelerated provision of 45 crores in this quarter, which is a one time accelerated provision. Approx 22 crores coming from the IL&FS account and the balance as a result of our assessment of some of the NPA accounts. So, total one-time provision was 45 crores. Stage-1 and 2 was mainly on account of the mix of the portfolio and the ECL methodology. As a result, the overall profit growth was at 54%, came in at 1060 crores.

Return on assets and return on equity were very steady at 1% and 5.9% respectively (non annualized). Deposits book grew 71%. However, on a sequential basis, the book contribution came down by 1% , mainly on account wholesale maturities not coming back. But as we are in January, we are seeing strong momentum on wholesale contributions as well, as part of our liability profile. Retail is continuing to grow strongly

If I take you to Slide #16, you see the numbers here. Overall, on Slide #16, nine months are very strong; 41% asset growth, 45% NII growth and 61% PAT growth. Slide #17 has a reconciliation with previous gap. We will continue to provide this panel till 4th quarter, and from there on, we will remove this panel for investors to see. Panel 19, no change.

One key change is Bajaj Housing Finance completed its first full year of operations in January. It turned in a profit for the first time in the quarter. Total balance sheet is 14,040 crores ending December 31st. Quarterly profit was 50 crores PBT and 36 crores PAT. So, the company has also started to contribute to the profitability of the parent, and we think by FY21, if all goes well, Bajaj Housing Finance should be a reasonable name to contend with in the mortgage industry. OPEX to NIM, on panel 19, I have talked to you about. ALM continued to remain strong. We have again provided the behavioralized maturity. This time, we have provided it for BFL and BHFL both. Both remained in reasonably strong position. Company managed to originate borrowings from banking markets, money markets and from retail and corporate liabilities. The quarter in general belonged to liabilities, didn't belong to assets. Asset momentum, of course was strong. We are reasonably now known for our strength on asset side of the business. I think we demonstrated that at 100,000 odd crore balance sheet in a tough liquidity environment, company can continue to grow in a seamless manner. So, the quarter in a way belonged to our liability side strength or demonstration of our liability side strength rather than asset side strength. On panel 19, credit card business continued to move well. The total CIF is now at 8.45 lacs. We are well on course for a guidance that we have provided for 1 million cards in force. We will probably cross a million by March as we have guided this week. On panel 21 is the behavioralized ALM. We were positive across all maturities for standalone entity as you can see from panel 21. Important point in panel 21 is that the Company had close to 5200 crores of cash which is the corner first month block that you see. The total cash sitting in liquid funds was to the tune of 5,189 crores. Today, the Company is sitting on close to 8,000 crores of cash and cash equivalents. Panel 23 shows liability mix for last 8 years. Liability mix went down as I said earlier in the comment, mainly due to corporate liabilities maturity. This number should look much stronger as we exit March 2019. Slide 24 is on leverage which is known to you.

Panel 25 is on liquidity, I will spend 2 minutes and then I will open it up for questions. Overall, I have talked on point 1 & Point 2. LAS business, is an important point I must make, acted as a natural hedge in the first 30 days of the liquidity squeeze as HNIs paid down. I think one of the things not covered by the street in general is the new external commercial borrowing guidelines that came in on 16th of January now makes BFL also available to raise funds in external markets. Earlier, the way the norms were, it was technically possible but realistically not possible for NBFCs to raise money through ECBs. Hence, ironically BHFL could raise $750 million despite being a new company and we could not raise. Now, fundamentally both BHFL and BFL annually can raise $750 million each. So, we could raise $1.5 billion between the two entities as a company, and we are reasonably sure that in the next fiscal, we will raise reasonable amounts from this new source of borrowing that has opened up for us as a company. These are the 2 points on this panel.

The second last point on this panel, these numbers are gross numbers, not net numbers, demonstrates the liquidity in the market,. These numbers would add up to 25,500 crores. That does not mean that we borrowed 25,500 crores. This is gross numbers and shows that markets were liquid. There is a churn in these numbers as well. So, just see them as a drift of availability of debt from banking market and from money market, both short term and long term.

Cost of funds on Slide #26, these numbers are in 1 decimal point. In 2 decimal points, there is a movement and 1 decimal point there is no movement. Cost of funds sequentially went up from 8.16% to 8.21%, that's a 5 basis point movement on the consolidated balance sheet. Inching up but not something that as of now sitting here, we would be worried about. That much more flow through is coming in from the operating leverage for us as a company, and as a result of pass through wherever available. Slide 28, I made the point, 1.9 million cross sell customers got added to the franchise. I just want to cover the last panel. Slide 41, all greens. Slide 42, loan against property should be red because as you can see, 96.95% is what the current bucket shows, mainly on account of of IL&FS exposure. Adjusted for it as you can see, the LAP portfolio remains very strong. It would have actually improved from 99.16% to 99.34%. However, the IL&FS account has meant that LAP portfolio has gone from 99.16% current to 96.95%. Panel 44 is gross NPA and net NPA by our core lines of businesses. You see improvement across all lines except two. One is marginal up tick in rural B2C from 1.34% to 1.42% in gross NPA. Net NPA is down, only gross NPA is up in rural B2C. Otherwise, line by line you see gross NPA & net NPA going down except for the mortgages which was caused by the IL&FS account. Other than that, we were looking at a two and a half to 3-year low on our portfolio matrix as a company.

NPA Movements on panel 45. This is normal data for you to digest. Panel 46 is a new panel that we have added on account of ECL summary and we can try and respond to it if there are any questions. Otherwise, in our assessment, there is nothing to comment on here. That's really the quarter. Me and the management team are here to take questions.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: My first question is with reference to the industry environment. If you remember, in 2016 at the time of demonetization, I remember at that time that you were saying that it was not a demand destruction. There was no impact on demand as such, it was a postponement thing. How do you see the current industry environment, particularly in an environment where entire auto industry was reporting very subdued numbers? Is it the demand which is impacted or is it NBFC crisis which is leading to this slowdown?

Rajeev Jain: Sure. Rajesh, first of all, the response to this question is judgmental in nature. I think somewhere in early November, just immediately after Diwali and if you recall that period, petrol prices went up all the way to Rs. 94 in Maharashtra and they were at all-time high. Somewhere there was a psychological impact on the consumer in general. My assessment is discretionary consumption is as much about psychology as about money in the pocket. I think, since then, November was soft, December was soft, January is making a comeback. That's really what my personal assessment for whatever it is worth and that's how we are seeing consumption pattern as well.

Rajesh Kothari: If it is for the consumer where you are basically serving with consumer durable site, for example, the festive season was not that great if I look at overall numbers. So, these days, do you see some kind of early revival in the month of January? That's what you are trying to conclude?

Rajeev Jain: Yes, at least I personally do see it at that.

Rajesh Kothari: Okay. And do you think there is a very gradual recovery, or do you think that the confidence is back for the industry?

Rajeev Jain: I would say it is gradual. Because Rajesh, it is very difficult to comment on this by week. So, that's why, I took a 3 months' view to give you an assessment, let's say from 10th of November to post Diwali to today. There was a marked slowdown and we are seeing a gradual recovery as well. We will wait to see how the auto numbers look in the month of January.

Rajesh Kothari: Agreed. My second question is with reference to the availability of credit from NBFC, particularly in the segments in which you are operating. Do you think it is normal or it is yet to come back to the normal?

Rajeev Jain: The only business where we did see an improvement in market share for us as a company was in our captive lending business of two-wheeler. In general, our market share of Bajaj Auto sales remain between 33% and 35%. This number in Quarter-3 actually went up all the way to 52%. So, we did see the impact of lack of availability of funding of credit by competing non-banks. Other than that, I would not say slowdown is caused by lack of availability of funding. At least, it is not visible to me. It is likely because that's the only auto business that we do. It is likely that may partially be the case for 4-wheeler lending as well and CV lending.

Rajesh Kothari: But not into the consumer durable?

Rajeev Jain: Consumer durable, no because not too many non-banks are even present in the business.

Moderator: Thank you. The next question is from the line of Antariksh Banerjee from ICICI Mutual Fund. Please go ahead.

Antariksh Banerjee: I have a little bit of questions on the rural portfolio, which from the numbers it seems, is incrementally becoming one of your strong engines of growth. So, can you throw a little bit of color on what products are driving this growth and whether collections in this part of the portfolio is any different from your urban collections? What mechanism you follow?

Rajeev Jain: You have a copy of the investor presentation?

Antariksh Banerjee: Yes, sure.

Rajeev Jain: If you go to Slide #10, these are the products that we offer. We do offer virtually all the urban products we offer in rural markets. Durable loan, digital, lifestyle, personal loans, loans to salaried, gold loans – actually we don't offer gold loans in urban; we offer in rural, loans for doctors, property and home loans and so on and so forth. So, we virtually offer all products of enough size and scale in rural markets. It is now 6-7% of the balance sheet. We built it out over the last 5 years. This is the 6th year of operations. At a fundamental level, on distribution, we are now in 869 rural markets in India, and we are present in close to 13,000 plus points of sale in CD. I must tell you that we are increasingly clear that in urban markets we are in 867 markets, but greater than 120 markets, in our assessment represents rural markets. It just so happens we have cut it by rural and urban as 867 urban and 869 rural markets. But 120+ markets represent a very similar expression from retailer ecosystem to kind of customer to the credit performance they demonstrate. So, that's point number 3.

Point number 4, at a core credit metric level, rural market's bounce rate is higher but their collection efficiencies are better. Net-net, their credit performance is better. The problem is with the economics of the business because in a 1,00,000 population market you must fundamentally have a light operating cost structure to make money. If you go to Slide #43 also, you see the credit performance of the rural portfolio is at 99.1% current, 65-66 basis points in 30+. This is an aggregation of all the entire rural portfolio. As it gains in size and scale, we will break this as well. Does that answer your question?

Antariksh Banerjee: Yes, Sir. Just one small addition. My first question was actually among all the products that you have under rural, is there any particular couple of products which are driving the growth or is it completely broad-based.

Rajeev Jain: It is a granular portfolio. I am in each one of them, our market share is very small. We have a long-long horizon to grow in each one of those line of business.

Antariksh Banerjee: Okay. And OPEX-wise, is it cheaper to collect in rural than urban or is it vice versa?

Rajeev Jain: It is costlier to collect because more number of people bounce which means more people need to be delivered what we call as home service.

Antariksh Banerjee: Okay. So you have one person servicing all products in rural, right, at a particular point?

Rajeev Jain: No. Different sales teams doing different products. And two different collections teams as well. So, it is a deeply invested structure.

Moderator: The next question is from the line of Praful Kumar from Pinpoint Asset Management Company. Please go ahead.

Praful Kumar: Just one question. If you look at next 3 to 5 years, what is the stance on obtaining a banking license for scaling up your liability. So, what's the thought on a banking license?

Rajeev Jain: It's a valid question given whenever one goes through tough liquidity situations as the company or the sector went through in Q3 FY19. It's a logical question to ask. We do give it a serious thought once in every year amongst the senior management and with the shareholders. At this point of time, I can't comment on the long term. It's important for me to articulate that. But it's a question that we try and ask every year and try and respond to every year. Today, the response is we remain a non-bank. As and when we change that view, of course you guys will know.

Praful Kumar: But is there a thought that this is something that we need to try to get ...

Rajeev Jain: As I said, it is a valid question. It is a rolling 12-month view that we take. The rolling 12-month view at this point of time is we remain a non-bank. You can ask me this question next year same time. Our strategic planning process happens every November and post that we try and ask this question. At this point of time, the answer is, no.

Moderator: Thank you. The next question is from the line of Sunil Tirumalai from Credit Suisse. Please go ahead.

Sunil Tirumalai: I have a couple of questions. Firstly, on the HFC, housing finance subsidiary. We see that the low ROE primarily comes from the high OPEX in the business. I am wondering what's driving this because from what I understand you have the model of origination only through your own channels and you don't rely on distributors and even if adjusted for the increase in the loan book for the quarter, it doesn't seem to be just growth-driven OPEX. So, I am wondering when will this start coming down because I think that's key to your ROE in this business doing well.

Rajeev Jain: Fundamentally, you have to look at it, Sunil, as a 31,000 crore balance sheet rather than a 14,000 crore balance sheet. That's an important point, because that's the total size of the mortgage business. It's a fully invested structure managing 30,886 crore of assets. All incremental assets in the last 1 year are now booked in BHFL. We estimate that whatever mortgage balance sheet that is sitting in BFL will seize to exist in the next 2-3 years' time. So, whatever mortgage the company has will essentially be booked in BHFL. So, it's an invested structure for that and we are clear that, as and when the scale is achieved in this business which we expect in the next 12 months' time, business should be a 13-15% ROE business. On a blended basis, Sunil, we already are delivering higher than that, part of which is sitting in BFL and part of which is sitting in BHFL. So, it is a transitioning process. We should complete transition in the next 2 to 2-1/2 years' time but dominant share of transition should be 18 months.

Sunil Tirumalai: Sir, sorry to persist a bit on this point. Even if I look at it on a combined basis, you probably will be number 6 or max number 7 in terms of the size of HFCs out there when I consolidate both and if I lowered all the cost that you given in the HFC as servicing the entire standalone plus consolidated loan book, we get to an OPEX much higher. Your loan book structure is not too different from other HFCs in terms of composition of home loans, LAP, larger wholesale loans, etc. I mean the scale is already there and the consolidated growth rate is at about 37%. Some of the other HFCs are also growing up at that pace but your OPEX is much higher.

Rajeev Jain: What's your point?

Sunil Tirumalai: My point is that your OPEX seems to be much higher and especially given that you talk about only internal generation of leads and no reliance on third-party channels. So, the OPEX seems a bit high which is the primary reason why the ROA and ROE are quite low.

Rajeev Jain: We are probably 6th or the 7th largest. It is no news to us but our view is to be among the dominant 4 or 5 lenders. We play across B2B, B2C, LAP and dealer finance and we build business as a long-term view. You will see the full picture emerge in this business. We are investing in the business. Let me make a point, I am not hurrying to say that either OPEX gets delivered today or I restructure OPEX. We are investing in the business, we are very clear about what our view on the business is, it has independent CEO and a management team and they have a goal of 14-15% ROE in the next 2 years to deliver and I am very confident they will. So, we will have to give them, as a new company, time to deliver on the goods. If they don't, they will automatically as a result bring down the cost. But we in general like to invest first and generate ROE where we are confident of the business. Where we are testing, we first try and generate ROE and then invest. In this business, our business model is very simple and very clear. We invest and we will generate the ROE.

Atul Jain: One additional point I will make. If you look at the book composition, you made a point saying that the book composition is similar to HFCs. There is only one small difference. All HFCs have a composition of developer finance to the extent of 13-14% of the balance sheet and that is one of the drivers for OPEX to NIM. We are running at around 38-39% OPEX to NIM if I take a mortgage business compared to other HFCs at maybe 20-22%, but our composition of developer finance which is the highest return generating business is 4% in the mortgage all balance sheet. Out of a 30,000 crore balance sheet, it is up to 3.5%. In that sense, we have a developer finance exposure only of 1,000 crores out of a 30,000 crore assets versus if I have to equate with any other HFC, it would have translated to 4,000 crore exposure. So, 4,000 crore at a very high return earning book versus 1,000 crore very high returning book is also a driver on the same but we have consciously chosen it to be slightly lower in the initial phase because we want to build out first and then look at the mix. That's one of the rationales.

Sunil Tirumalai: Okay. My second question is on the B2B or more particularly the consumer durables and lifestyle kind of businesses. During the last quarter, obviously you would be tracking your market shares, any movement in that? We are seeing some of the banks also getting active in this space. How are you positioned on the market share trends?

Rajeev Jain: We track it very closely. It differs by consumer durables separately, digital separately. It was a reasonably brutal quarter. People spent a lot of money in the quarter but we did the business. That's here, the numbers are visible to you.

Sunil Tirumalai: Right. But was there any gain or loss of market share that you could find out?

Rajeev Jain: With respect to market share, we are in the early 70s and that data comes through the subvention claims that we raise to the manufacturers because then I have to go to only 26 people and get information and data rather than thousands of retailers. We, in the last 18 months, have held our market share in the early 70s. Actually no movement. That has also meant we are also spending a little more than what we were spending earlier but it was a brutal quarter. I think we fought quite hard and we are satisfied and happy with the fact that we didn't lose an inch.

Sunil Tirumalai: Right, understood. And just one small clarification finally. Going back to slide number 31, where you have SME businesses, the standalone book of 14,000 crores, how much of that would be the secured part because I am guessing BHFL is completely secured.

Rajeev Jain: That is not sitting here. That is sitting in mortgage. This entire book is business loans to SME.

Sunil Tirumalai: Okay, so there is no secured loan sitting in 14,000?

Rajeev Jain: No. If it is a loan against property or a self-employed home loan, that's sitting in mortgages.

Moderator: Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Sir, I had one question. The largest 2 retail banks in the country, both are showing some nervousness in some of the pockets. One is worried about agriculture and SME to some extent. The other one is very worried about SME and worried about retail 2020 onwards. Are you seeing anything on the horizon which makes you nervous on the asset quality side? And also this growth, consistently your guidance has been around 20-25%, that is what you have maintained and you have always massively over delivered, but sooner or later it catches up right? because the base is increasing so much. So, any comments on that? What is normalizing for the base? What's the net addition of AUM that you can do? Can you do like 10,000 every quarter or this was an exceptional quarter because the industry was suffering?

Rajeev Jain: I will take the last one first. Even in Q1 and Q2, we added 8500 crore each virtually. We ended at 110k cr, we entered the year at 84k cr. We added 8,000 cr in Q1 and 8300 cr in Q2. In general, Q3 is stronger. So, to that extent, there was nothing abnormal about this quarter. This should come back to 8,000-9,000 crores in Q4. That is really the general experience. Q3 is a stronger quarter. Actually, the quarter would have been stronger if not for the prudence and caution that we maintained. We are well funded as I said. We are sitting on 8,000 crores of cash and cash equivalents today. As of December, we were sitting on 5,200 crores of cash & cash equivalents but prudence required that we remain still cautioned through October and November as well. So we should be comfortably able to generate between 8,000 and 10,000 crores of growth, as we move into the next fiscal, mainly, if I may say so, caused by franchise momentum on one side, geographic momentum on the other side and products maturing on the other side. All these three will ensure reasonable momentum in building assets. To a previous question that I was answering on mortgages, I think if not in FY20, in FY21 it will be a big driver of our asset momentum without in any manner diluting ROE in general.

Coming to the first question, the whole concern about portfolio, one of the concerns until 6 months ago was that there is a leverage building up at a consumer level in the system, and we tried to work with the bureaus. We tried to work with them for 2 years to try and assess what is the degree of leverage risk in the system. They could not come up with a reasonable solution. Given that we have a 32 million customer franchisee, what we have started to do is that by line of business, we are taking on a vintage basis, data from the bureau and we have created our own time series model to predict whether the leverage for a consumer to whom we gave money in 2015 over the last 3 years has gone up or gone down on portfolio basis. If there is no new external macro situation that develops, we will try and see if we can give an expression of that to the investor community on our portfolio. I have no view on market, industry and so on and so forth. I can speak about our portfolio. Having said that, I must make an important point that 33 million franchise represents in general a 15% of the bureau in this country. So, unless and until I am really way off in terms of my franchise, it should reasonably represent what's happening to leverage in the industry. We will try and see in our May results which is the 4th quarter results. We will try and share in a simpler manner an expression of that. We are watching the data for the last 9 months now. We are not seeing any of that.

Agastya Dave: Sir, we get a very good idea of the financial capacity of the company looking at the capital adequacy but what about the capacity in terms of physical presence? Can you put in a qualitative or quantitative number to that? And based on your physical presence, what kind of business you could have done let's say this quarter?

Rajeev Jain: We told this to the board. My reasonable view is we could have added 2,500 crores of additional assets in the current quarter. I will shoot straight on that, that's number 1.

Agastya Dave: That would be the delta, Sir. I was talking about, let's for example, your capital adequacy is 21% you can go down to 15%. So, you could lever that much more and your entire base would grow by the equivalent amount. So, I was just wondering in terms of physical capacity, was it just 2,500 more and you would run out of physical capacity?

Rajeev Jain: Yes, I have to do business and as an added point that my colleague Anup was making, was that just on leverage risk, one of our core dimensions of leverage building up in the system was also over the last 5 years keep going deeper and deeper into India. I mean, to the earlier point that 1770th city shows far lower leverage than the first city and so on and so forth. And business, over the last 5 years, we have matrixed and tracked what is our portfolio contribution in top 8, top 35, top 70, top 120 and beyond. And we have seen significant movement there. That is meant lower risk and that also means lower macro level risk. Micro level risk I can control. Macro level risk also gets controlled as a result of it.

Moderator: Thank you. The next question is from the line of Ronak Raichura from Asian Market Securities. Please go ahead.

Ronak Raichura: Sir, I wanted to know more about your credit card business and the kind of arrangement that you have with RBL Bank and also in the wallet business? Could you throw some color on that Sir, please?

Rajeev Jain: If you go to panel 31, we have a co-branded credit card relationship with RBL Bank. We have 845,000 cards in force. We added 200,000 net cards in force in between Q2 and Q3. The reason I am giving sequential numbers is because it's a high growth business. This is done to existing customers of BFL, to the best customers of BFL. We sell on their behalf and we also do collections on their behalf.

Ronak Raichura: So, we generate a fee income and the loan book is for RBL, correct?

Rajeev Jain: Yes, correct.

Ronak Raichura: So, RBL gets the interest income and we get the fee income?

Rajeev Jain: Absolutely. There is a revenue sharing model that is allowed by RBI which in cases we may have, in cases we may not have. So that's point 1. EMI card is the second point on wallet. We have 6.5 million wallet at point in time on the MobiKwik wallet. As you can see on a year-on-year basis on panel 31, that wallets have seen a net addition of 6 million in the last 1 year. We eventually foresee the entire EMI cards of ours to sit on a wallet platform. The objective is clearly to digitize the entire store card infrastructure to do more with the client and to reduce friction for the client and as a result do more again and again. That's really what the wallet's view is and credit card view is.

Ronak Raichura: What percentage of our income would be from this segment?

Rajeev Jain: Wallet is more of a channel, it is not an income driver, it's a channel. In fact, it is a cost driver. It costs me money to onboard these clients onto the wallet. So, it doesn't generate income. It actually generates cost but it gets mitigated as a result of us doing more business with those clients who are onboarded on to the wallet.

Moderator: Thank you. The next question is from the line of Subhanshu Mishra from Motilal Oswal. Please go ahead.

Subhanshu Mishra: The first question is with respect to your fee income. We have been alluding to the fee to PBT. Can you please walk us through from the top line because I want to understand how much of it is coming from the risk income and how much of it is non risk income and what is the sustainability of the fee income going forward, Sir?

Sandeep Jain: As we have articulated in the fee to PBT matrix slide, the fee component includes fees like service and admin fees charged to the customers while giving the loan, penal income, foreclosure charges plus income generated on distribution of insurance products, distribution of credit cards and so on and so forth. Also includes EMI card fees collected from the customers at the counter. It would be worth mentioning here that about 45% of the fee revenue is driven by loan origination which is the processing fee collected from the customers, balance 55% is basically in the form of penal income, foreclosure and a large portion is in the form of distribution fee revenue pool.

Subhanshu Mishra: Right. And how do we see this proportion going forward?

Sandeep Jain: I think we have very strong momentum on fee revenue and we should be able to maintain this matrix. We see opportunity in fee revenue if we do well in terms of distribution of cross-sell products for our customers. We should see this number go up from 38% to roughly about 40%.

Subhanshu Mishra: Right. And it would be helpful if you can give it on a top line level as well going forward. When we come down to PBT level, it becomes a little hazy. I would suggest if you can have it at the top line level as well going forward?

Rajeev Jain: When you say top line, what do you mean?

Subhanshu Mishra: The interest income and what would be the fee income?

Sandeep Jain: Annual report disclosure format will have line item level detailing. So, you will see those numbers at a much more granular level. The format used for publishing the quarterly results, does not cover line level disclosure.

Rajeev Jain: I am seeing if half yearly we can publish because we do publish the balance sheet then. So, half year annual report as Sandeep says is anyway published. We will try and see if we can publish in September quarter results.

Subhanshu Mishra: Right Sir. And just a data keeping question. Any lending rate hike we have taken and the negative carry on the liquidity that we had this quarter, if you can quantify that?

Rajeev Jain: The way the negative drag on liquidity, it was not substantial; because fundamentally let's say if I borrow at "x" and I put it into liquid fund. So, in the eventual scheme of things and given the profit before tax that's really where this line would go and hit, it's not material or meaningful, so that's point number 1. Maybe 10 to 12 crores is what Murali who is our treasurer is saying. So, as I said, not material.

Subhanshu Mishra: There has been any lending rate increase in this particular...?

Rajeev Jain: Yes, in some of the businesses given where, at a point in time in September it looked like things were structurally headed northwards on interest rates. Wherever we had the ability, we did increase. Even mortgage rates actually have been increased both by HDFC and SBI and as a result we have increased as well. The increase has been in the mortgage of around 10 basis points to between 30 to 35 basis points in some of the unsecured categories. In our B2B businesses, we don't increase because it is agreed proforma. Neither we reduce nor we increase. So, part of it is pass through, part of it we will absorb and deliver operating leverage to try and ensure that net outcome is not diluted.

Subhanshu Mishra: Right Sir. Any guidance for FY20 in terms of disbursement growth and AUM growth, Sir?

Rajeev Jain: 25% to 27% balance sheet growth

Moderator: Thank you. The next question is from the line of H. R. Gala from Finvest Advisors. Please go ahead.

H. R. Gala: I think that is the only quarrel which I have with you. Every time you are guiding us for 25- 20, and you are delivering much-much higher. What my question is that do you have any apprehension at the back of your mind that you may not be able to repeat the spectacular performance that we have in these 9 months or this Q3? Are there any points like which we should monitor that what could happen your growth rate can come down to 25% in asset growth?

Rajeev Jain: It's a fair quarrel. It's a philosophical point, I have always say to people that as a lending company or in the business of risk that we are in, we must have the ability to pull back. If tomorrow a line of business is not doing well, I should have the ability to pull back. Like it or not, psychologically we are all driven by our commitments. I don't want our commitments to drive our strategy, I want strategy to drive our commitments. That's the way we have run the company over the last 12 years, and I tell people it can happen in a quarter we may grow 25- 27%. Otherwise, it can happen in a quarter 1 may have 2 businesses not doing well and I may pull back significantly on them. Then what would happen? Now it's not like I am trying to meet my commitments. I am just saying in a risk business and have the ability to pull back without giving it a second thought because that is the only way to run, in a diligent manner, a risk business. I can easily tell you that I will grow 40%. That is an easier one for me to do rather than giving you the long explanation. I am giving you a long explanation because it is more of a philosophical point and we drive ourselves that way. If I had apprehension that we won't grow, how will we grow? Tell me that. At the end of the day, as a set of people who are sitting on this table and a few others who lead this company, if we didn't believe we can win we will never win, isn't it? So, it's not that we don't believe we cannot win, but we are in risk business. Despite all the planning, things can go wrong. If they went wrong, pull back on the business. At that point of time, I don't want to think about it that "Oh! look, we are committed to grow this much." That's all, nothing else.

H. R. Gala: Are there any areas in our lending operations, we have got a number of products, number of markets, etc., where you think that over a period of next couple of years, there could be a possibility that you might have to pull back? In any of these areas?

Rajeev Jain: At a fundamental level, we make changes in the way we conduct and run our business every month. We have a segmentation view. Other than that, we are driven by data across granular portfolio reviews which fundamentally determine, and we use a scalpel rather than a cleaver. Rather than a cleaver, we use a scalpel. That ensures that business does not get impacted and which means momentum does not get impacted and we take out risk. I don't have a structural view on this could go wrong. Structural view can be areas like leverage, as a previous response that I was giving to the question. That we take up separately because that is more horizontal in nature. If there we find any issue, then we go out and act on that basis.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, we will take the last question. We take the question from the line of Umang Shah from HSBC. Please go ahead.

Umang Shah: I just have a couple of questions. One was, you mentioned that competition is kind of getting tighter and we are spending more which means that the customer acquisition cost has gone up. Is it because the kind of cashbacks and the offers that we offer to the customer which is being borne by us?

Rajeev Jain: It's a mix of two, more boots on the ground and during promotions time, little more money. I think that's the fine balance that we continue to drive, but net-net, it does mean higher cost.

Umang Shah: Okay, understand. But clearly, our P&L allows us to absorb these kind of costs and still deliver the kind of return ratios that we have but then logically it means that a guy who is new into the business eventually has to burn or spend longer than you do?

Rajeev Jain: Answer is yes. In fact, the maths is available here, right? We did 68 lakh loans, 25 lakh new customers. 43 lakh customers came from existing franchise. These customers have 1/3rd the loss rate and they cost me 1/10th the cost of doing business. So, they are generating in a way the disproportionate profitability. Somebody needs these 4.3 million customers to generate that. Otherwise, if you spend on only 25 lakh new customer acquisition, it's a tough one to play.

Umang Shah: I understand, that's helpful. And just on IL&FS, are the cash flows still coming into the escrow account and what's the provision that we have taken for this account?

Rajeev Jain: So far, we have taken a 20% provision on a 225 crore net exposure that we have plus the interest reversals. So, we have taken in total 54 crore number including interest reversal; 42 crores in principal and 12 crores in interest reversal. The money is coming into the escrow account,. IL&FS is seeking due approvals first for the operational expenses of the buildings and we are releasing them, working with IL&FS. So, the escrow account is fully functional and controlled by us and we are working closely with IL&FS.

Umang Shah: Sure. And just last data point. In our commercial book or our securities lending book, would we have any exposure to any of the Essel Group entities?

Rajeev Jain: No.

Umang Shah: Okay, and not even at the promoter level?

Rajeev Jain: No exposure to Zee, Essel via LAS or any other exposure.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Karan Singh from JM Financial for closing comments.

Karan Singh: On behalf of JM financial, I would like to thank Mr. Rajeev Jain and the senior management team of Bajaj Finance and all the participants for joining us on the call today. Thank you and goodbye.

Rajeev Jain: Thank you Karan for organizing this. Thank you all for patient hearing.

Moderator: Thank you very much, Sir. Ladies and gentlemen, on behalf of JM Financial, that concludes this conference. Thank you for joining us and you may now disconnect your lines.