"Bajaj Finance Limited Q1 FY2018 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Bajaj Finance Limited Q1 FY2018 Results Conference Call hosted by JM Financial. 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 call, 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 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 first quarter FY18 results. To discuss the results, we have on the call Mr. Rajeev Jain, who is Managing Director, Mr. Sandeep Jain, Chief Financial Officer, Mr. Rakesh Bhatt, who is Chief Operating Officer, and Mr. Atul Jain, who is Enterprise Risk Officer. May I request Mr. Rajeev Jain to take us through the financial highlights subsequent to which we can open the floor for Q&A session. Over to you Sir!

Rajeev Jain: Just one clarification. Sandeep should just be joining in 5 minutes. He is in the AGM of Bajaj Finserv. As that completes he should join any moment. Good evening to all of you. I will take you straight to slide 15, which has the quarterly performance for the quarter - of the investor presentation is what I am referring to. We upload - it is uploaded on the Investor section of Bajaj Finserv website.

Overall a pretty strong quarter for the company, a strong start to the FY18 as a fiscal. Overall the customer franchise, which I look at, is a very key measure of the strength and the quality of the company grew to 21.7 million customers, it was up 26% from 17.18 million customers. Company booked a record, just a tad below 3.8 million loans in the quarter that went by that is a 48% growth in terms of number of loans booked. It is ever-highest number of loans booked by us as a company.

Total balance assets under management grew to Rs.69000 Crores. I just have to qualify here that there is an IPO financing amount to the tune of Rs.2021 Crores sitting there. Adjusted for that the core asset growth was 35%. Total income grew 39%. Loan loss in provisions grew 59%, but included an amount of Rs.42 Crores, which was a one-timer that we took in the quarter. This Rs.42 Crores so adjusted for that, it grew 36%, which is in line with the balance sheet growth. The Rs.42 Crores one-timer that we took came from in the consumer business, partially to the tune of Rs.24 Crores in the consumer business as part of our demonetisation cleansing process and Rs.18 Crores as a result of a sell down of the infrastructure finance portfolio. Now we have now fully exited the infrastructure financing business. We took a hit in the current quarter of 2018 of Rs.18 Crores and walked away fully from the business.

As a result of strong topline momentum, strong acquisition momentum, reasonably good OpEx to NII at 42%. Our overall profit after tax grew 42% to Rs.602 Crores. Return on assets was very strong not annualized, but it came in virtually at a 4% annualized rate in the first quarter. Gross NPA, net NPA, now we have transitioned to 90 days past due. They came in at 1.7% and 0.53%. If you do comparables, they are same as where we were in the first quarter of last year as of June 30, 2017. Capital adequacy came in at 20.15%. Tier-I was at 14.2%. We burnt 35 basis points of net capital in Q1. As you may have seen, we also raised Rs.600 Crores of Tier-II bonds. We have the Board of Directors today subject to shareholders approval have approved doing a QIP from QIB to the tune of Rs.4500 Crores, which will take care of the next 3 years of capital needs of the company. So overall, a pretty strong quarter for the company.

Just last few points before opening to questions. The retail liability franchise continues to grow quite well. We crossed the first milestone of Rs.5000 Crores of deposit business in the quarter that went by. It is now our overall deposit book is 10% of the total liability book. Retail liabilities are now 33 months. Retail deposit book is now - average turnaround book is 33 months. Company got received AAA from ICRA as well. Now we are AAA from CRISIL, ICRA CARE and Fitch. Company got ranked as Best Company to Work for fifth year in a row by GPTW for fourth year in a row by **(inaudible) 05:55**. So overall, a pretty good quarter and pretty good start to the year for the company.

Just before I hand it over to questions, I do want to say that, when I look at the growth that happened in the last 5, 6 days of GST momentum in some of the businesses. So essentially momentum happens in businesses where things are going to get more expensive. So consumer durable, as part of the new GST model, were going to get a little expensive. So there was momentum in the last 5, 6 days. So probably 1.5%, 2% of the growth can be attributed in the quarter that went by. If you look at page 13, you would see the consumer durable financing we did 22.61 lakh accounts. You could probably knock-off 60,000 accounts in this, which came in as a result of the last 5, 6 days of activity. There is significant amount of destocking that has happened in most businesses and as rates come in it is a huge change for the first 15, 16 days of the quarter that are opened have been marginally slow. It is expected. Everybody is aware of it, but it is important I do outline that point because it will have a transient impact as we cover Q2 as a company. So that is really all I wanted to cover. I am open to questions. Sandeep has also joined.

Moderator: Thank you very much Sir! Ladies and gentlemen we will now begin the question and answer session. First question is from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma: Congratulation on a good set of numbers. Just two questions on first of all, on the net interest margin. I believe this time we have not given a split between net operating income and net interest income and other income. Could you elaborate as to how the yields have moved in Q1, is this improvement seasonal because we cannot calculate even the….

Rajeev Jain: Yes. So in our business, because there is subvention income, it is a mix of - the mix fundamentally determines what NIM is, so I would not look at that number, Ashish. Essentially, I can tell you, there is no deterioration in any given manner in margins on a year-on-year basis. Probably, given the significant drop in cost of funds, it is only an improvement rather than deterioration. I mean, year-on-year, if you look at it, if you just do calculation in interest cost versus and the average balance sheet, the cost of funds were actually virtually dropped by 85, 90 basis points on a year-on-year basis.

Ashish Sharma: And that number is sustainable going forward?

Rajeev Jain: That number logically given the way monsoon is looking, where crude is, where real interest rates in the environment are should be heading downwards. I would expect 10-year G-Sec at 644. It should be heading towards 620.

Ashish Sharma: Sure.

Rajeev Jain: That is what I would say. And it ought to, and we ought to be seeing big cuts during where real interest rates are at this point in time. So there is likely to be a downward bias as where I see on interest cost. Part of it will be pass through and part of it on the fixed interest book will get retained.

Ashish Sharma: And then second question, Rajeev, was on this change in capital raising plan. I think in the previous call, you had mentioned that, we were looking at Q4 FY2018 and Q1 of FY2019 as slightly, so the growth momentum as you mentioned, the capital consumption was only 35 bps. So why it is changing in the plans?

Rajeev Jain: So this is an enabling resolution from the next 12 months standpoint, that is point one, and we get the approval in the next 45 days. So clearly growth momentum in Q1 has been stronger than we estimate it to be. In general, as you are aware that, Q1, we accrete more capital than we burn, but despite that we burned 35 basis points. So it is a call between January to June as you rightly said is what we had articulated in the fourth quarter results. We have a 12-month enabling resolution. One quarter and here or there, you could always move. We may choose to do this in the next three months, we may choose to do this in six, and we can comfortably hold till June 2018 as well.

Ashish Sharma: Perfect and then just lastly...

Rajeev Jain: Sorry. Sandeep was saying something.

Sandeep Jain: And apart from what Rajeev mentioned, even the dividend, which used to get accounted at the year-end so far, from this year onwards, will get accounted only on payment basis or approval basis. It will come in Q2. There is an additional one that will come in Q2 of Rs.260 Crores, 30 basis points.

Ashish Sharma: Fine. And then just lastly, so you mentioned about provisioning cost, even if they sit for the one-off, it is closer to AUM growth. So you expected it to be lower than that because I think there has been some one-offs in FY2017 and after that we were assuming it to be - the normalized number to be little lower so..

Rajeev Jain: So as I had articulated, Ashish, fundamentally, I said that we estimated the overall cost of demonetisation to be Rs.100 Crores to Rs.120 Crores. We took Rs.45 Crores impact in Q4. We have now taken Rs.24 Crores impact in the current quarter and that gets us virtually to Rs.70 Crores, another Rs.20 Crores could come in the next two, three quarters. So otherwise, if you look at the credit performance parameters on slide 21 and 22, other than one business, which is business loans that we have outlined as yellow, we are quite comfortable from a credit standpoint and two wheeler, which is red, which continues to remain red virtually eight months into it.

Ashish Sharma: Sure. Thanks Rajeev. It would be helpful if you can provide the split between the net interest income and other income in the presentation, if we cannot put it in the regulatory frame.

Rajeev Jain: Yes.

Ashish Sharma: Thank you and all the best for the next quarter.

Moderator: Thank you. Next question is from the line of Sameer Kulkarni from Vantage Securities. Please go ahead.

Sameer Kulkarni: Congratulations on a great set of numbers. Can you repeat on the BFL 2.0 strategy little bit, what you talked in AGMs?

Rajeev Jain: Yes. So fundamentally, there is a set of 15 areas across seven thematic expressions that we have established, against which, we have created 16 different strategies. So it will be very difficult for me to articulate this on a call like this, but we will be happy to engage with you separately and talk through because it is a subject of at least a three to four hour conversation. But essentially, it means more technology, more analytics, significant ability to augment our - significant investments to be able to augment our ability to do two to three times the business, let me simplify the whole conversation. So if you are happy with high growth at high speed, we want to transition to hyperscale at hyperspeed. So how do we do cross-sell better, what will our payment strategy be, how do we underwrite in the 1000th city in the country for SME businesses, how do we - the company has 22 million customers, how does that get to 100 million customers in the next five to seven years time. So there are set of areas that we are working on, which is really what we have articulated at BFL 2.0, which we are in the process of implementing over the last 9 months and that will accelerate in the next 15, 20 months time.

Sameer Kulkarni: That was really great in a challenging environment. So thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Ashish Upganlawar from Purnartha Investments. Please go ahead.

Ashish Upganlawar: Thanks for the opportunity. I have two questions. So I can read from your presentation that the growth as far as the loan book is concerned is more in the lower IRR products versus the higher ones. So should we read structurally that the fact that this is going to be the way and probably the yields will be lower going forward from a longer-term point of view?

Rajeev Jain: No, that is not correct. The consumer business fundamentally grew 43%, the SME business grew 17%, commercial grew 34%, rural grew 132%. So I could argue that consumer essentially is high margin and rural is high margin and both grew. So the order of growth essentially was rural followed by consumers, followed by SME, followed by commercial. So I would not say growth came into lower margin. Parts of consumers, which are like mortgages etc., but out of 9 that is the only one which is lower margin and that I could argue are higher margin businesses or I could argue.

Ashish Upganlawar: Actually in slide 13, so the upper part, which is the top four, of which I think consumer durable finance, which is about say 12%, 13%.

Rajeev Jain: 18%.

Ashish Upganlawar: Growth has been 18%, 19%, 20% something like that.

Rajeev Jain: 18%. Digital products 49%, 33%, 59%, 40%, 122%. So as I said, line number 8 is the only low margin business, which is salaried home loans and you have to remember the base. So while digital products grow 49%, consumer durable was 18%, look at the balance sheet size, right. So the operating leverage emerges distinctly better in consumer durables just from a profitability standpoint. For any business, in general, where you reach an inflection point of operating leverage, it just shoots in consumer businesses.

Ashish Upganlawar: Is there something above operating leverage, which I specifically meant to yield on the advances.

Rajeev Jain: Yes. So yields from 1 to 7, Ashish, yields are - you can see the yields, right?

Ashish Upganlawar: Correct. So you see that the yields to remain maybe five years down the line.

Rajeev Jain: Yes. They remained like this the last five years. They are not likely to change.

Ashish Upganlawar: Secondly, basically, now you have hit about 2 Crores consumers or other customers that you have mass affluent plus. So can you just apprise us of what kind of numbers this target segment of mass affluent plus is and I am trying to read into what is the further potential in terms of penetration, I understand the opportunity on the cross-sell and everything else that you sell, but just a synopsis of how you look at the potential for the business from a penetration point of view?

Rajeev Jain: Yes. So fundamentally, if you go to slide 12, you will see that what is just focus on the cross-sell franchise, which is 12.19 million. Essentially, this is bureau best, which is 750 and above bureau best customers as possible. This number in India is 42 million across the banking and retail financial services. So we are still at 25%. On top of it, what is something that we have not talked about is that, the country, that the company has actually been aggregating working on acquiring prospects whom it wants to convert into customers and we will start to share that list from next quarter - an update on that from next quarter. Company has aggregated close to 15 million prospects. Of that 7.5 million are - and they are not our customers, they are dedo. This is post dedo I am talking about that they are prospects, they are not our customers, that number is as out of them, 7.5 million have another bureau 750. So in a way - but they are not my customers. I want them to become our customers. So in a way, out of 42 million bureau based customers, we have access to close to 20 million now. And out of those 7.5 million, in out of 38 loans that you saw, 100,000 loans in Q1 came from there. As we sharpen the pencil on that, as we grow that prospect still you should see that grow exponentially as we move.

Ashish Upganlawar: Of the two questions, I just wanted to sum it up, you always say that the book growth that is expected over next five years is 25%, and then you say that about 20% is the net income growth that we see. So if the two things, which are your margins in the business and operating leverage are going to come, then why should your bottomline growth be lower than the loan book growth?

Rajeev Jain: Because you will see, it is just a matter of time, you will see businesses like mortgage accelerate. It is given, we do not like to change balance sheet, so unless and until we are ready we will not change balance sheet. You will see if you go back to the same slide 13, you will see mortgages, while base is very small, you will see salaried home loan is 83%. I can make it 183%, but we have to perfect the model, we have to make sure it generates 12%, 13% ROE. You can see self-employed home loan at line #13, both are home loan, one is to salaried, and other is to self-employed, you see the disbursement growth that is at 73% disbursal growth, balance sheet was 21%. Fourth quarter it was 12%, 13%. You will see mortgages to our customers. We do mortgages only to our customers accelerate. Everybody knows they are lower margins, but we will accelerate only once we have found a rightful way to make minimum hurdle rate of return on equity on business. So what I am saying to you is, I am not managing expectations, I am just telling you the way the business model is organized, but we are not in a hurry to make sure that balance sheet starts catching up and the model does not. Model has to catch up and then balance sheet can catch up. So that is really where we are. When we are in a perfect situation, fundamentally, from the way we are organizing the model, you will see faster balance sheet growth and a slower net income growth. It will happen. I can tell you that reasonably clearly, but it is obviously not played out in the last six quarters, as I have continued to articulate, but it will happen.

Ashish Upganlawar: Is that near or is that coming in the later period?

Rajeev Jain: Yes, I would say would not happen for second or third quarter, by fourth quarter, it should start, you should start to see that play.

Ashish Upganlawar: If that closes it. Thank you so much.

Moderator: Thank you. The next question is from the line of Roshan Chutkey from ICICI Prudential Asset Management. Please go ahead.

Roshan Chutkey: Thanks for taking my question. Sir, firstly, are EMI cards franchise has...

Moderator: Excuse me this is the operator. Mr. Chutkey, we cannot hear you clearly.

Roshan Chutkey: So just wanted to understand the increase in EMI cards...

Rajeev Jain: Yes, that is correct. So there was an error in the way we were publishing this EMI card, right?

Roshan Chutkey: Yes. EMI, card, yes, that is right.

Rajeev Jain: What used to happen was we have set of virtual cards that were not added here. So what you see the number as 9.3 million, that is 9.8 million.

Sandeep Jain: 9.8 million.

Rajeev Jain: Two things. We were not adding our rural cards here, rural EMI cards, that is 800,000 of them, and we were not adding our virtual EMI cards, which is to 1.7 million, so that is really and rest is the growth. So through the waterfall from 6.8 million last quarter we have added 1 million, I think, generic.

Sandeep Jain: 7.3 million is the EMI, 1.7 million is virtual and 0.8 million is rural.

Rajeev Jain: No, so there is natural growth plus virtually EMI card and plus rural EMI card. So this was -- there was...

Roshan Chutkey: Your corresponding figure is 7.2 million, if I heard you right?

Sandeep Jain: 7.3 million.

Rajeev Jain: Corresponding figure is 7.3 million that is correct.

Roshan Chutkey: I just wonder, on the consumer durables business. Now we have done about 2.2 million CD loans this quarter. I want to understand the sourcing potential here and what the limiting factor is?

Rajeev Jain: There is no limit. The limiting factor is, we are in this business of, not true for CD for any business we are in the business of managing risk. As long as risk continues to be managed right, there is no limiting factor, but that itself in general is a limiting factor, right. I can give money to every guy who comes into the store, but then that will become a limiting factor in two quarters. So there is no such thing as limiting limitation. It is just that we want to choose our risk. If you go to slide 21, there was a limitation that happened in terms of the way risk played out in September 2016. It came all the way down to 97.72% current. Today it is at 98.38% current where it was in March 2016. So if risk plays out there is no limitation, right, in the way we estimate it to be.

Roshan Chutkey: And the other thing I wanted to understand is, how much is the OpEx requirement in this business? Basically we have not seen any major increase in OpEx to NII, right?

Rajeev Jain: Part of the OpEx to NII movement as a result of BFL 2.0, investment that we are making in the 16 strategy that I talk to you about number one and number two in areas of geographic expansion. Because of the strong strand that we have seen or momentum that we have seen on net income growth in Q1 and we were seeing that clearly exiting Q4, we accelerated the geographic expansion. If you go to slide 14 from 856 locations to 926 locations, from 38,000 points of sale, we are now in 41,000. So part of it is- and as you put people in these

3,000 stores, we will end up putting close to 700, 800 addition, but they manage three to four stores in smaller markets. So part of it in BFL 2.0 and part of it in geographic expansion that we are actually doing and this should play out from a momentum standpoint by Q3.

Roshan Chutkey: So let me ask this, this is my question. So what is the per loan OpEx on CD loans CD book front?

Rajeev Jain: No. We cannot tell…

Roshan Chutkey: How are we trending over the last...

Rajeev Jain: If I start to publish by which I do track, but I might start to publish my entire P&L, I run 34 P&Ls to you guys, then you guys can, so we should walk from that. I cannot address this point, yes.

Roshan Chutkey: No problem. And Sir you said we have consumed about 35 bps this quarter net, right, so this quarter generally we do not see any capital consumption in Q1, so what has led to this capital consumption?

Rajeev Jain: Capital consumption, no that is not correct. Every quarter, first and the third quarter, we do consume more, and second and fourth quarter, we consume less. That is the pattern in general.

Roshan Chutkey: I got it. I got the trend.

Rajeev Jain: Second and fourth, we consume less, and first and third. Is that right, Sandeep?

Sandeep Jain: Yes.

Roshan Chutkey: But what is the reason for this even, odd?

Rajeev Jain: Volume movement in Q1 is stronger. In general, historically, if you take last four, five years, it is always stronger in Q1 and then slows down in Q2 and then picks by Q3, Q4. This year what is going to also happen and it is an important point is that, season has broken up between Q2 and Q3. It is for the first time Diwali, as I am seeing, happening on 19th of October. So actually so Navratri also for the first time, I do not remember them ever in September. So part of the festival season in this year is actually going to be in Q2 and part of the festival season is actually, a smaller festival season is what is going to be in Q3. So there will be some positive noise in Q2 in general of consumer companies and a negative noise in Q3. You will have to blend them together and see that. So I have never seen Diwali this early and that means all festivals are early this year.

Roshan Chutkey: Sure and just one last question, Sir. In DAP, now we have seen number of loans increasing considerably this quarter-on-quarter basis and tickets have also increased, again.

Rajeev Jain: Yes.

Roshan Chutkey: So what is the thinking here now?

Rajeev Jain: That is not the design. We are going much more retail. We walked away from doing – we have now anchored at Rs.80 lakhs to R.90 lakhs between Rs.90 lakhs to Rs.110 lakhs of ticket sizes, so that is really where we feel the sweet spot is. Rs.60 lakhs to Rs.65 lakhs in for self-employed home loans and Rs.90 lakhs to Rs.100 lakhs for Rs.110 lakhs. We just got to generate greater momentum there as we move ahead, but there continues to be considerable pressure now on prepayments, so 38% of the disbursement growth, on balance sheet was only 1%, but this is really where we will be, Rs.90 lakhs to Rs.110 lakhs of average ticket size. So you will see number of loans rise.

Roshan Chutkey: But then on the SME business loan side, we are witnessing a decline?

Rajeev Jain: Yes. So after a long, long time, for the first time, we have seen, I do not remember actually. If you go to slide 22, you will see that we marked that as yellow, because if you observe, that is an eight quarter data here, we have not seen 98.21% current portfolio for some time in the last three, four years. So competitive activity has intensified in this business. We have tweaked the business strategy. You will see this number stay here for the next two quarters and by fourth quarter it should come back and that is why you see the corresponding disbursement growth in business loans slow down. So as you picked it rightly, on slide 10, year-on-year disbursement growth there is 3% down. This number last year you would have looked more like 30% growth, so it is driven by our risk assessment that is all nothing else.

Roshan Chutkey: I understand, but how exactly is this segment different from the last segment, the customers I mean?

Rajeev Jain: No. Customer is not different. Customer is not different in any given manner. So there is no difference between…

Roshan Chutkey: In both the cases, we are assessing the cash flows and giving the loans whereas LAP is doing well...

Rajeev Jain: Yes. Both are there, exactly. They are identical customers. That is absolutely correct.

Roshan Chutkey: No, but my point is, while LAP is doing well our SME business loans are not doing well. So how do I understand this?

Rajeev Jain: No. There is nothing for you to understand. One is a working capital loan and other is a growth capital loan. So that is one point. One is a smaller exposure then another is a larger exposure. One is an uncollateralized exposure and other is a collateralized exposure. So in 10, 11, 12, 13, I would worry about 10, 11 more than I would worry about 12, 13. So we run them on very sharp metrics 10 and 11. So if their headline metrics deteriorate, we pull back very rapidly in 10 and 11 and we can take or anybody can take longer in 12 and 13. That is the difference between running a secured business and an unsecured business.

Roshan Chutkey: Thank you so much Sir! All the best.

Moderator: Thank you. Next question is from the line of H R Gala from Panav Advisors. Please go ahead.

H R Gala: Congratulations for a very good set of numbers.

Rajeev Jain: Thank you.

H R Gala: Yes. One complaint that for last three years consistently you have beaten your own target.

Rajeev Jain: Yes.

H R Gala: Will you continue to do that for the next two, three years?

Rajeev Jain: I do not know. I wish I had a crystal ball. I wish I did not have demonetisation and GST. It is very difficult. I think environment remains...

H R Gala: Still we are able to somehow work there.

Rajeev Jain: Yes, that is fair. I think I am not the person responsible for it. I think the entire management team is responsible for it and the 10,700 people in the company. I think we have created a culture, which is able to accelerate and decelerate because there are businesses where we keep decelerating and there are businesses that we keep accelerating. So the company mobilizes very well around it. I think that is a culture we have created. That gives me greater confidence that we should be able to beat it, but never at the cost of compromising on credit.

H R Gala: Absolutely.

Rajeev Jain: So that is really how I would articulate my response to your question. So as long as credit remains well managed, we have good amount of capital, we are seeking more capital, we should be able to, each one of these 18 lines of businesses, 19 lines of businesses should be, there is no reason why they should not be $19 billion of balance sheet in the next four, five years. There is no reason for that.

H R Gala: Next question is, do you foresee any geopolitical disturbance taking place?

Rajeev Jain: I am not a specialist. I run – I am not even in half - more than 65% of India. So if you ask me about Bihar also, I do not know, because I am not there. World remains volatile. You have a better gear for it than I have.

H R Gala: I am saying mainly from the Indian point of view. The way in which...

Rajeev Jain: I am not expert to comment on it, so I would not comment.

H R Gala: Fine.

Rajeev Jain: Not because I do not have a point of view, I am not expert at it. So it is unfair for me to comment.

H R Gala: No problem. Thank you very much. I wish you all the best.

Moderator: Thank you. Next question is from the line of Umang Shah from Emkay Global. Please go ahead.

Umang Shah: Congratulations on a good quarter and thanks for the opportunity. I just wanted to know, if I look at our consumer business, after kind of making a low in FY2014 now it is probably at the highest level in past seven, eight years at around 46% of overall assets. Under BFL2, over next two years, do we see some kind of reversion in this or where should this business settle in the overall scheme of things?

Rajeev Jain: Now, logically, I think it is a fair point. So let me articulate it differently. We thought that is really how it is going to play out, but what we "are learning" is that the consumer businesses are very difficult to build, but once they are build they reach an inflection point from where they get into a very different orbit. So that is really in my assessment in hindsight and I must be honest about it. We thought there would be reversion, but it is looking to me that having created a business model, which fundamentally in the consumer business reasonably robust, that is not to say anything about SME or commercial, they will grow. Rural will grow, but there is unlikely to be reversion, at least, in a foreseeable future.

Mind you, I just want to make one point, Umang, that, parts of rural business are consumer business only.

Umang Shah: Sure.

Rajeev Jain: And parts of it are SME business. A larger part of the rural business is the consumer business. So we are seeing greater deepening of risk, B2B management, B2C management emerge. So I would not see reversion happening in the near term.

Umang Shah: So exactly my question was that, if I was to look at consumer and rural both put together, both are now closer to 50%, 51% of our balance sheet, and obviously, they are key to our profitability as well. So assuming that if you do not really see a major reversion in the foreseeable future, then to that extent our profitability should also kind of be sustained fair assumption to make?

Rajeev Jain: Only point I was just making is that SME post-demonetisation and post-GST, we anyway have a cautious stance. There is nothing to worry from a portfolio standpoint, but even they do not know and we do not know how it is going to play out in terms of their business models. So we are just watching it carefully. If you see Q3, as a result of demonetisation, the SME business grew 14%. Q4 we grew 16%. This quarter we are only at 17% growth. So wherever we are seeing any signs of concern in SME not because either for our assessment or based on our profit, based on our early indicators, we are taking a cautious stance and I do not see that cautious stance changing at least for the next two quarters and by the time dust should settle and then we will take it forward from there. SME is a very, very large space, so we will take it forward from there.

Umang Shah: Fair point. And just last question. So taking a cue from what you spoke about consumer business, so our REMI business is just kind of picking up. So over next two to three years, you do feel that it can build a scale similar to the consumer durable business that we have?

Rajeev Jain: I would say, it is a biggest opportunity among the first five lines of business that you see; 2, 3, 4, 5, okay, 579,000 accounts. Only thing you have to remember, this is 10,000 to be per ticket size. So you would earn Rs.604 Crores between retail EMI and e-commerce. We have been at it for last two years. It is now beginning to gain momentum, Rs.604 Crores. I foresee that Diwali quarter will be a big quarter for this business. So after 2.5 years of effort we are beginning to see it is not breaking even as yet, it will breakeven in third quarter this year and once as I was earlier making a point, once these things breakeven then just they hit a very different orbit. So that is really what we are banking on.

Umang Shah: Sure. Great. And just one last data point. If you could just repeat the waterfall of outstanding EMI cards, what you mentioned at the beginning of the call? I am sorry I missed it.

Rajeev Jain: 6.8 million we were in Q4. That has grown by 500,000, that is 7.3 million. 800,000 rural EMI cards we were not publishing and 1.7 million we have virtual EMI cards. So you have being sent a card number and a limit, but you do not have a physical plastic. In fact, we are just transitioning to a digital plastic in the next 60 days time any which way, so everything will become virtual in the next 60 days time. So that is the walk.

Umang Shah: Perfect. So the total is 9.8 million?

Rajeev Jain: Yes. That is correct.

Umang Shah: Perfect. Thank you so much and wish you all the best.

Moderator: Thank you. Next question is from the line Bhaskar Basu from Jefferies. Please go ahead.

Bhaskar Basu: Good evening. Just three questions from my side. Firstly, the customer addition has been very strong this quarter, almost 1.55 million, but at the same time I see data somewhere in the presentation, which says that consumer durable new customers are up 3.6 million, so why the disconnect?

Rajeev Jain: 3.6 million? Where did you see?

Bhaskar Basu: This is...

Rajeev Jain: No. Total loans we have done is 3.7 million. Loans done is 3.7 million. Together as a company, which majority would add up to - if you take slide 13 we have given only those that are relevant, so if you added 173, 22.61, 22 and 527, and 229, 30, this will add up to 33 lakhs.

Bhaskar Basu: Right.

Rajeev Jain: And below 370,000. Okay, virtually 37 lakhs are coming. So 33 lakhs loans is what we have done.

Bhaskar Basu: Just a followup question on this is that a large part of the incremental new customer or the disbursal seems to be fresh because in one of the slides where you normally give the repeat versus breakup almost 48% in your retail is fresh versus which is normally in the 40% to 42% kind of range and similarly in the SME as well.

Rajeev Jain: The reason for that is, if you go to slide 13 you see 370,000 customers acquired in rural. Essentially, only 20% of them, 22% of them are repeat because there is no franchise only.

Bhaskar Basu: Right.

Rajeev Jain: So as rural expands, and thirdly, as I just mentioned earlier, if you go to slide 14 we have added geographic locations given the way we see environment and the way we see things moving we have added more new locations. In new locations, by the time we get to 50% penetration of existing to new, it is normally 2.5 years. So if I increase new geographies and the rural business moves that is really how why the existing and new mix change. So you are likely to see that play out in a very similar manner over the next two, three quarters.

Bhaskar Basu: Just to followup on this, is this the reason why your cost to income, which normally comes down sequentially between Q4 and Q1 is still elevated?

Rajeev Jain: Yes. Both BFS 2.0, we are significantly adding resourcing and technology investments and geographic expansion. So we have taken a -- in general, a little aggressive stance on investing upfront. And in upfront, I would say Q1, because if things are -- post-GST by third quarter things are in good shape, we should be having the -- what I would say, our stance should be able to seize that opportunity. So it is a bet let me make a point that we are making, but a calculated one.

Bhaskar Basu: Does it mean that -- your target -- earlier you used to guide to cost-to-income going below 40 at some point, is that not really happening at this point or as you...

Rajeev Jain: So we are at 42 OpEx to NIM. We were at 41.4. You will see over the next 15, 18 months, you should see it between 41 and 42. You are not going to see it decelerate from here, but you are not going to see it accelerate from here. This is really where 41.5, 42 is really where for the next 3, 4 quarters it will hold at.

Bhaskar Basu: And subsequent to that, assuming some of the cross-selling benefits starts coming in, would that have lowered in...

Rajeev Jain: The answer is yes. So see exactly to the point that you earlier made, if new customer acquisition is lower, then operating leverage is better. If new customer acquisition is higher, then operating leverage is poorer. But it is the investment that we got to make to acquire new customers, whether it is geo expansion or the investment that we are making to create a higher velocity engine as part of BFL 2.0.

Bhaskar Basu: And just one final question. Last quarter you had mentioned that about Rs.40 Crores to Rs.45 Crores of additional provisions would be made next few quarters. You have already made Rs.40 Crores this quarter. Is it the same provision?

Rajeev Jain: No. Out of Rs.40 Crores, Rs.18 Crores is infra-financing exit and Rs.24 Crores is additional impact to demonetisation. You should expect another 20, between Rs.20 Crores and Rs.30 Crores now towards Q2 and Q3, so that should be done. We took Rs.45 Crores on account of demonetisation in Q4. We have taken additional Rs.24 Crores. We are fundamentally left between Rs.30 Crores to Rs.40 Crores. I have said between Rs.100 Crores and Rs.120 Crores we are largely there.

Bhaskar Basu: Thanks a lot.

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

Sunil Tirumalai: Thank you very much Sir for the opportunity and congrats. I have a couple of questions. So firstly, going back to one of the earlier questions on the margins, so since the numbers have been reclassified, so have -- if I look on Y-o-Y basis...

Rajeev Jain: What do you mean by reclassified?

Sunil Tirumalai: So the other operating income is this now not -- no longer being disclosed?

Sandeep Jain: Yes. The format has changed. That is correct.

Sunil Tirumalai: Yes. So can you give a sense underlying the -- I did not quite understand whether you mentioned that -- why this have gone up Y-o-Y or come down or stayed flat if you could just clarify?

Sandeep Jain: Reclassification is based on SEBI's guidance, is it?

Rajeev Jain: SEBI has required all the companies to publish in the form of a Schedule III, which requires only operating and other income.

Sandeep Jain: So we have not changed the classification.

Sunil Tirumalai: Yes, just wanted to understand, if I want to look at how the margins have behaved Y-o-Y.

Sandeep Jain: That is fine.

Sunil Tirumalai: So underlying how have the margins trended?

Sandeep Jain: Yes. So last year in June 2016 we had Rs.133 Crores of other income. This quarter the number is Rs.250 Crores. There is a growth of Rs.117 Crores. Mainly on account of higher penal collections and profit on sale of investments, which is the liquid funds that we manage.

Sunil Tirumalai: So then you adjust for this and the margins are reasonably flat, is that the right conclusion?

Rajeev Jain: As I mentioned earlier, Sunil, there is no change in the business construct in any given manner, whether sequentially or on a year-on-year basis. There is, in general, margin pressure, but that, as I earlier mentioned, there is significant fast reduction in cost of funds you have seen from 9.4% to virtually 8.5%.

Sandeep Jain: The only thing I will -- I would like to add is, these are called other operating income. They are called operating because it is our core the business. So it can grow along with the growth in the business.

Rajeev Jain: I was just going to say that. The penal growth is because if customers bounce -- if I was banking 6 million, if I am banking now 9.5 million. Apple-for-apple 7% only bounce, then apple-for-apple that much money comes in. So to the point that he makes, there is variability as a result of its core to the business and it is not a -- there is no one-timer in it.

Sunil Tirumalai: Yes. So basically, I was just tying this in with the other comment you made to another question on -- so you have been saying for some time that you want to grow the safer, the secure part of the business and hence over long term we should expect NII growth to be slower than AUM growth, but right now we are actually seeing the opposite happening on the AUM part at least where this unsecured part is growing faster. Should that not have led to better margins -- actually a decent margin improvement?

Rajeev Jain: So 2, 3 things people keep asking me and I keep responding. I am not driven by secured and unsecured. The banking system is fully secured, if you look at the state of the banking system. We are driven by panel 21, 22, 23 that we share with the Street. If it is performing in line -- if the credit is performing in line with our product profitability models that we have created based on vintage risk curves, we shall grow it. If it does not irrespective of whether it is a secured business or unsecured we shall not grow it. We are forgetting a point that people keep talking about secured. The real estate market is in dumps. Everybody knows that for the last 3 years. You want me to grow that and I have no problem growing it. It must perform in line with our product profitability models. Similarly, irrespective of whether unsecured gives me a higher margin I am not governed by it. I am governed by the threshold that we establish for the business and it should be able to meet that threshold. If it does not meet the threshold we shall not grow it. So I want to state it very clearly and I have no problem continuing to repeat it, because that is a traditional mindset, which says that secured and unsecured. We have not seen that play in any given manner over the last 10 years, and I do not see it playing because we are dealing with the same customer. I want to make that point, Sunil, clear irrespective -- to the earlier point that somebody asked, right, that business loan we are degrowing, LAP we are growing. If -- we have to remember for an Rs.100 lakh loan for loan against property, an installment will be Rs.90, 000 or Rs.100, 000. For a 15, he will get Rs.90 lakhs or Rs.100 lakhs, which he will deploy in the business to grow capacity and generate profit pool. If he took a business loan, his installment for an Rs.20 lakh loan will be Rs.100, 000, which is for a 30-month period. That is only working capital he can deploy Rs.20 lakhs for. That is a huge – that is a big difference. So I just want it to be understood that we means -- customer may be same, means differ and then as a result, the behavior differs. So now coming – let us answer your question now to the point that you are making unsecured and secured, we do not look at it that way. That is a distinct difference between the way you are asking the question and the way we have constructed the business model. I want to mention that. Does that answer your question or no?

Sunil Tirumalai: Yes. It helps us understand how we are looking about it. Thanks for that. The second part that I wanted some help is, so basically now that we have transitioned to 90 DPD with this quarter, all the provisions that are captured in provision coverage ratio are the only -- that and the standard asset are the only provisions from the -- that you take on. Are there any other nonspecific or extra provisions that are still left?

Sandeep Jain: So all the accounts which are 90 days past due, provision made on them are considered for the purpose of gross NPA, net NPA and provisioning coverage. General provision is not taken into consideration at all.

Sunil Tirumalai: Can you quantify that?

Sandeep Jain: General provision is close to about Rs.280 Crores.

Rajeev Jain: That is a standard operating procedure, right? It cannot be...

Sandeep Jain: It cannot be counted for coverage.

Rajeev Jain: That is not even allowed. So there is no question about it.

Sunil Tirumalai: Right and then standard asset provisioning is over and above this?

Sandeep Jain: This is standard asset provisioning.

Rajeev Jain: Yes, over and above.

Sunil Tirumalai: And the coverage ratio of 69% is what we should kind of work with?

Rajeev Jain: Yes 70%. Between 70% and 75% is what our goal is. If we have gone to 80, we want demand 75% -- between 69%, 70%, 72%, that is the corridor.

Sunil Tirumalai: Thank you very much Sir!

Moderator: Thank you. Next question is from the line of Deepak Agarwal from Axis Mutual Fund.

Deepak Agrawal: Sir, I wanted to know about competition. So as I understand, RBI has now allowed banks to do this business even via the NBFC they run and what we hear is some of the bigger banks like HDFC and Kotak now want to do it the NBFC way compared to the bank earlier. So how you do you see the competition? I understand it is early days even for them, but do you see them increasingly becoming competitive in at least some of the counters they operate?

Rajeev Jain: Yes. So fundamentally you will see some of them take a decision to compete in some of the businesses. So let me articulate differently that, today, we are competing with them in most of their lines of businesses and have grown our businesses. They will now compete with us, and we will continue to grow our business so -- at a very simplistic level. We have the size, the skills and if I could use the word reasonable dominance in some of these businesses to be able to fend-off competition, and we will manage it that way. So we are becoming more efficient. We are investing, as I made a point on 2.0, that if you are doing 10 million loans a year, that is what we did last year and this year we are going to do, let us say 12 million, 12.5 million loans, we are getting ready for how do we be able to process 25 million loans in the next 3 years. So we are investing. We do not look over our shoulders and build a business. So we will see increased competitive activity. We have been hearing about it for now for the last 12, 15 months and it will play out the way it will play out. It does not -- I would not say it does not bother us, it does not trouble us. There is significant opportunity and room for growth for many players. As long as they are out there to build a robust business model and generate profitability. So that is fine. As people will realize, it is not an easy business to do. Banking 9.5 million customers in a given month, collecting from 7 lakhs of them between 8th and 30th of the month at 98% current portfolio is a little difficult thing to do.

Deepak Agrawal: Right. Agreed. Sir, second question relates to the subvention income. Now if you see we are practically pushing what about 20% or 22% of white good sales in India and obviously it is becoming a really large item for the OEMs per se, in terms of what subsidies or the subvention they give to you. Is there a risk at some point that subvention number could be cut by those guys?

Rajeev Jain: So fundamentally, look, they spend much more in advertising and promotion than they give us in subvention or to the industry in subvention. What is subvention? It is a cost of sales at a fundamental level and as anything, which becomes large eventually gets costed into the business model. That is really how -- so if we do advertising and promotion of Rs.50 Crores a year that is really how then part of that cost is -- goes into the each business manager's P&L and he has to pay for it. So as something becomes large enough and is important, like advertising is important. People realize that in this part of the world in Asia where aspirations are larger than your ability and it is true actually, not just in Asia, in any part of the world, that to stimulate sales, you got to spend money. Subvention is nothing else, but stimulating sales. So we do not see any risk to it, but I must make in a same way and a point to you that we work with all manufacturers and have an operating leverage model that every year as operating leverage improves we reduce our subventions. So there is a mathematical model that we have created and agreed with manufacturers that in every quarter, say first quarter is strong, the net rate to them will be lower. Third quarter is bigger, net rate to them will be lower and that is also worked by manufacturers. So an operating leverage model has been created, which ensures that the leverage is passed through.

Deepak Agrawal: Got it. Thank you Sir!

Moderator: Thank you. We have followup question from the line of from Roshan Chutkey from ICICI Prudential Asset Management. Please go ahead.

Roshan Chutkey: Thank you so much for taking my question again. So firstly, this PPC for SME, right, SME covenant, in the 12 months on book, it becomes almost 5 and then more or less stays there. So how do we understand, so you do the entire cross-selling efforts within the first 12 months itself and then it is hard to sell more therefore it stays there, is it the right understanding?

Rajeev Jain: The answer is, yes. If you have to season, we do not take any exposures in them for the next 12 to 15 months time at the very minimum, even on those that we take exposures. So essentially we start to sell them insurance and mutual funds and so on and so forth. In general, the answer is, yes, in general, but I have to just -- we have to just check this. We will check this and come back to you, again. I maybe correct, but I just want to validate it.

Roshan Chutkey: It is in the last but one slide, I guess.

Rajeev Jain: No. I got, slide 29, basically when I look at it we will just reconfirm. Sandeep will reconfirm to you.

Roshan Chutkey: Sure and the other thing is, now your target growth is about 25% and you are likely to -- your ROEs are likely to improve because probably they will be operating...

Rajeev Jain: No. Sandeep was making just a point on the previous point.

Sandeep Jain: What you see on SME PPC, which says 12-month MOB is 4.98, 5.06 and then 4.93. These are not from the same set of customers. These are different entries that we are looking at, because only those who have completed 12 months, only those who have completed 18 months, only those who have completed 24 months. These are different set of customers that we are talking about.

Rajeev Jain: The effort in terms of making additional cross-sell to them keeps going on. These are the customers in 0 to 12.

Roshan Chutkey: No but once he crosses 12 months, if he has already been sold 5 plus products...

Rajeev Jain: We will send you -- Sandeep will send the response to you.

Roshan Chutkey: Sure, Sir! Understand.

Rajeev Jain: I heard what Sandeep is saying, but I just want to revalidate that as well.

Roshan Chutkey: Sure. And another question is on capital consumption. So our target growth is about 25%, right? And our ROE is likely to improve, because we will probably see operating leverage gains sticking in because of the investments in technology. Therefore, why do we need to raise capital now, unless you are going to see discreet growth of 40%, 45%?

Rajeev Jain: The capital raise needs are only between January to June 2018. We are -- we have taken an enabling resolution at this point in time. If the growth in Q2 remains, the momentum remains strong, we may accelerate that. That is all. That is the limited point. So are we comfortable? These are also -- you would appreciate that it is also determined on market conditions at a fundamental level. I may like it to rise between January and June and if market conditions are not conducive then what happens in June? We will still need capital. So we are creating an earlier window to be able to access, maybe one quarter ahead, may do it, may not do it. So we are giving us a longer leash, rather than shorter leash. That is all we are doing.

Sandeep Jain: And the way approval process works, I think once the shareholder gives approval, this is valid for 12 months and we need capital between January to June, so we have taken approval now, so that it is ready for last -- the next 12 months period.

Rajeev Jain: So we may raise it earlier. I am not saying no, but it is also dependent on how market conditions happen. Do not want to wait till January to June as well.

Roshan Chutkey: Sure. Thank you so much Sir!

Moderator: Thank you. Next question is from the line of Anand Bhavnani from Sameeksha Capital. Please go ahead.

Anand Bhavnani: Thank you for the opportunity and congratulations for the wonderful numbers. Most of the questions are answered. I had questions pertaining to BFL 2.0 strategy and as in early part of the phone call you mentioned that there is a session kind of needed for it. So may I request you to -- if you are organizing a session include Sameeksha Capital as a part of it. I will send a separate mail to the company.

Rajeev Jain: Yes, we will do that.

Anand Bhavnani: And we are actually quite excited about this strategy, so...

Rajeev Jain: No, very much. We will do that.

Anand Bhavnani: That is it and good luck for rest of the year.

Moderator: Thank you. Next question is from the line of Adarsh Parasrampuria from Nomura. Please go ahead.

Adarsh Parasrampuria: Question on subvention. You mentioned that you pass on OpEx over longer-term to the OEM, but again the question is, there is competition and if somebody wants to start this business with lower ROE threshold than what you have, are you experiencing that and how do you respond to that?

Rajeev Jain: So 2, 3 things. One, we are not experiencing so far, because let us face it, it has taken us 10 years to build out a -- to carve out 20% of the sales of the market and this is with that is all we did for the first 3, 4 years for a living. So as I said, to be able to process 3.8 million loans in a -- actually, we processed 4.7 million loans, disbursed 3.8 million loans. So somebody can go and say, I will do the business, let us say, instead of 21%, I will do it at 16%. He has to pump 20% of the volumes, Adarsh. I think we should just remember that. Now what happens on the other hand, let me make a point to you. At a structural level from a 3- to 5-year standpoint, I am quite clear that the share of contribution by the consumer will rise versus share of contribution by manufacturer. Am I clear? The answer is clear and are we developing strategies to share that shift from manufacturers to consumers in a gradual manner without realizing we are at it, let me assure you. So...

Adarsh Parasrampuria: And when consumer pays it, you do not see IRR?

Rajeev Jain: I can only -- and that requires -- let me make a point to you so that it is clearer that, that requires frictionless technology for customer to pay. Let me – that is all I will be able to say at this point in time and we have been at it for the last 9 months. That is not to say, I am into under pressure. I am taking a 3-year view that the share of revenue from manufacturer versus share of revenue from customer, if I look at global experience, share of revenue from customer has to grow versus share of revenue by manufacturer. So we are cognizant and we are aware. So the first step of it was operating leverage. Second step of it is something that we are launching in the next 60 days time and so on and so forth.

Adarsh Parasrampuria: So broadly, as of now, no change in subventions in most of the categories you are working in the consumer side from a...

Rajeev Jain: Sorry, Adarsh?

Adarsh Parasrampuria: No, you are not seeing any change in subvention levels at all versus say 12, 18 months back in various consumer products that you operate?

Rajeev Jain: We are only dropping. We are only at operating leverage model dropping.

Adarsh Parasrampuria: Second question is -- last one for my side is on financing of mobiles, right, larger segment than consumer durables. What part of your AUM is it like -- it sits in various buckets, so what part of the AUM is mobile?

Rajeev Jain: Yes. So if you go to slide 13, Rs.816 Crores -- 1,217 is direct. Out of 7,974 take another Rs.1000 Crores. So that is how -- these are the only 2 places it sits in. It will sit partially -- another Rs.200 Crores will sit in rural ending as well.

Adarsh Parasrampuria: So I am just trying to understand vis-à-vis the size, right. Like in consumer, you reached 20%, in mobiles, it is still much smaller and you have spoken in the past about the chances of fraud and asset quality issues are larger. So are you through with it and will you see similar penetration in mobiles maybe in next 3, 4 years?

Rajeev Jain: If you got to slide 21, it is interesting you are raising this point, right. Take slide 21 bottom quartile 96.66% 2.5 years ago, right. 97%, 97%, 97%, 96%, 97%, 97.27%, 98%. So it took us a long time to crack the code on getting it there. You will see this number, Adarsh, virtually closer to 98.38% or 98 plus soon and from thereon you should see -- because what has happened in mobile is we -- over the last 4 years, we accelerate, then the credit hits, then we pull back. Then we accelerate, fortunately, it is on a higher base every time, but it is volatile. Anything, which is volatile, does not allow you to build a strong growth model. We now are very close, I would say. I have not seen this play out like this in the last 6, 8 months. So we are very close.

Adarsh Parasrampuria: So broadly that next 2, 3 years could be very large is it in mobiles?

Rajeev Jain: This is a more difficult business than consumer durable. Even the margin per account is lower. So this is a more difficult business to crack than even CD. So -- and we have been at it for 4 years. The revenue per customer here is 30% lower, let me tell you, than CD. So it is a harder business to do than even CD.

Adarsh Parasrampuria: But would that mean that given -- if you see this trend at 98-plus continue, then you probably see much higher growth here?

Rajeev Jain: The answer is, yes and you will see much higher growth. We are much more confident and comfortable.

Adarsh Parasrampuria: Thanks a lot.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand over the floor to Karan Singh for his closing comments. Over to you Sir!

Karan Singh: Yes. 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. Thank you all.

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