"Bajaj Finance Q1 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Bajaj Finance Limited Q1 FY2021 Results Conference Call hosted by JM Financial Institutional Securities Limited. 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Karan Singh from JM Financial. Thank you, and over to you Sir!

Karan Singh: Thank you. Good evening, everybody, and welcome to Bajaj Finance's earnings call to discuss the first quarter FY2021 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; Mr. Anup Saha, Deputy Chief Executive Officer of Bajaj Finance; Mr. Deepak Bagati, who is President, Risk and Collections and Mr. Ashish Panchal, who is President, Rural, Insurance and Liabilties. 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 evening to all of you. Our apologies for doing this call this late mainly because of our AGM followed by the BFS AGM. I will take 20 minutes to speak and then hopefully we can open for Q&A.

I will be referring to the presentation which we have uploaded in the afternoon on our Q1 results. Let me jump quickly to page #4 of the presentation.

The focus of the company during Q1 was on employee safety, capital preservation, liquidity management, business scenario planning, Opex management, collections capacity augmentation, creating new customer propositions, business transformation framework and lastly but importantly, calibrated restart of business as the country started to reopen because the lockdown was sudden in nature.

The results are: assets under management grew by 7% YoY. Opex to NIM came in at 27.9% versus 35%. PAT came down by 19% YoY. ROE came in at 2.9% not annualized. Net NPA came in at 50 basis points in Q1 FY21 versus 64 basis points in Q1 FY20.

These numbers, given the whole host of the situations, I would say need to be watched over the next one or two quarters before we make too much sense out of them, is really what I would guide all of you to do.

Let me just quickly cover some of the 35-37 points that we have articulated in the presentation for clarity. Let me just jump to balance sheet and franchise very quickly. Clearly till 10th May, business operations were closed and gradually restarted as local administrations eased lockdown conditions. As of yesterday, we are operational in 2,322 locations, which represent 85% of the company's business. 86 locations at this point of time are closed for business fully. Examples being Pune, Bangalore, among the large cities, which represent 15% of the company's business. Point to note is, Mumbai is a part of 2,322 open locations rather than being part of 86 locations, just to give you a texture.

AUM growth, we talked about, moderated to 7% YoY. On a gradual basis over the last 60 days, the company has opened business-by-business based on its degree of confidence. It started with sales finance and auto finance which are its point of sale businesses, loans against security and gold loan business. Home loans and credit card distribution business started in June and in-between extension of moratorium came in and it is only from 1st of July that we restarted all our other lines of businesses. At this juncture based on our assessment and what we are seeing, we do believe that 75 plus cities should revert to pre COVID volumes by October, 40 to 75 cities by November, 10 to 40 cities by January and top 10 cities by March. This of course assumes that we will not have a second national lockdown. In general, as a result, our view is that overall assets under management growth could look like anywhere between 10% to 12% in FY2021.

We have booked 1.7 million loans in the last 50 days across our different businesses. In general, the early bounce rate and collection efficiencies of these loans, are marginally better or in line with pre-COVID levels. This is an early indicator. If these indicators were to persist in August, September and so on, then we could probably have a stronger growth stance in second half of the year.

Given the lockdown, the entire focus of the company was what do we do to with our workforce, what do we do with our customers. In the process two big parts emerged where we could work with our existing customers which is point number 8 and 9 of my presentation. We had a health card product which had gone live in October, November this year and given the entire focus on health, we started to cross sell health card to our existing EMI card customers. The company successfully managed to sell 5.33 lakh health card customers, it generated 35 crores of net fee income in the quarter for the company.

Given the lockdown company also decided to convert some of its existing customers with no overdue and good repayment track record from term loan to a flexi loan for a switch fee. This generated 135 crores of switch fee in Q1. I will be covering this in greater detail, given what I would call the WhatsApp murmur since we released this investor deck and the data in the afternoon, just give me 5 minutes to come back to this point.

Let me just jump to point #10. Fundamentally company acquired 0.5 million new customers in the current quarter, total franchise today stood at 42.95 million. Company is sitting on 20,600 Crores of cash and SLR investments of 2,550 Crores. This represents virtually 19.25% of its total borrowing. Given the environment we do believe that we will continue to run higher liquidity buffer. Its impact on cost of fund is reasonably material which is the point number #13. 169 Crores was the cost of excess liquidity in Q1 itself. In a way, it is a 650 Crores run rate if we were to maintain this for a full year. Do we have that stance for at least the next one quarter - the answer is yes, and we will take it as things progress.

Deposits book stood at 20,061 Crores, it is an year-on-year growth of 33%. Its contribution was 17% of consolidated balance sheet. We continue to attract sizable deposits even in Q1, we dropped rates twice by 65 basis points in two tranches. Corporate : retail mix stood at 70 : 30 in line with our stated strategy to reduce the lines on corporate deposits.

As you may be aware on point #15, S&P global downgraded the company's long-term issuer ratings on account of sectoral downgrades due to COVID-19. So that is an update on point #15. On Opex as I have said on April 6th call and in May 19th Q4 results that clearly we have limited control over revenue, we have limited control over credit cost, we do have our control over Opex. So, company has gone out hammer and pump and have looked at what I would call non-value add cost and even value added cost for the at least the next two quarters until things come back to normalcy.

On a sequential basis overall Opex has dropped by 296 Crores year-on-year which is a 20% sequential drop and an 11% year-on-year drop. We have taken several actions, we have taken a voluntary pay cut across the company from 5% at junior levels to 17.5% at the seniormost levels for the current year. We are reasonably heavy on incentives, we have taken a view till September to pause that as well, we have done significant call center optimization and so on and so forth. All actions that we deemed appropriate to take and as a company to protect the P&L and in the process balance sheet have actually been taken from an Opex standpoint.

On credit cost, now let me spend 5 minutes on it. There are 8, 9 points. You are aware RBI on account of continuing disruption extended the moratorium by another 3 months till 31st August. Consolidated moratorium book came in at 21,705 Crores which is 15.7% of AUM from 38,599 Crores which is 27.1% of AUM as on April 30th. Mainly bounce rates are dropping, collection efficiencies are improving and as a result the moratorium book came down.

During the quarter as a measure of prudence, company continued to accelerate its provisioning. It took 1,450 Crores of contingency provision taking total provision so far to

2,350 Crores. In addition, there is a 623 Crores of ECL on this 21,705 Crores taking the overall provision to just a tad below 3,000 Crores aggregating to 13.7% on the consolidated moratorium book as of June 30th.

Since moratorium book is also continuing to accrue interest, in line with our assessment we also decided to reverse interest income to the tune of 220 Crores in the quarter. Lastly, we provided an update on our credit cost scenario planning model on 6th April. We estimated at that point of time, 80% to 90% increase in credit cost assuming lockdown continues till 15th May. The national lockdown continued for 68 consecutive days till 31st of May and was followed by multiple district and state level lockdown imposed by respective local authority.

At this juncture, as we speak Bangalore and Pune are in midst of what I would call a more stringent lockdown than the original national lockdown. Based on incoming data over the last three months, we have now updated our credit cost model and we now estimate that the overall credit cost for the year will actually rise by 100% to 110% which is a 6000-6300 Crores for FY2021 over previous year.

We do believe and it is evident and visible that we have reasonably strong pre provision profitability to absorb the increase versus what we had originally estimated in April. We have provided an outlook that to mitigate the significant increase in bounce rate as a result of the pandemic, we are investing significantly in augmenting our collections infrastructure. We have added 2,800 collection officers so far and 16,000 collection agencies to manage the increased bounce rate.

At this juncture the way it really looks to us is that 75 plus cities should revert to pre-COVID collection efficiencies sometime around November, 40 to 75 cities by end December and 10 to 40 cities by February. The question that we have in front of us fundamentally is what happens to top 10 cities - it is really tough to predict. Most of you who are on call, a lot of you are on call are in Bombay are aware of how the lockdown has been. We are for the last 8 days in Pune in a complete lockdown state, so top 10 cities is making it very difficult for us to fully forecast in an effective manner how things will pan out and of course if the cases were to go up and we are so far not forecasting a second national lockdown. So that is really on the credit cost and I am coming in a moment to a set of points that I do want to cover which are not there in the investor deck as well. But let me just complete this. Profitability came in 19% lower mainly on account of 1,670 Crores of provisions and reversal of interest income.

Overall pre-provision profitability remains reasonably strong. We had given an outlook to the street in May that we are also looking at some of the businesses where we do believe there may be some opportunities from a margin profile standpoint. We have taken actions as deemed appropriate to increase margin profile in some of these businesses. Fundamentally a business that is probably struggling most on account of pricing pressure is the mortgage business, where there is tremendous pricing pressure. We are re-pivoting the mix marginally for short to medium-term to navigate through this. Capital position remained very, very strong at 26.4% CRAR overall, Tier 1 capital adequacy was 22.6%.

Let me just jump to moratorium which is panel 11. This is data as of April and as of June.. There are some questions that, I will try and address as to why we have changed the format in terms of not providing the bounce rate. AUM as of April 30th was 1,42,000 Crores, 38,600 Crores of AUM was under moratorium which was 27% of the total AUM. We had overall COVID provision and ECL provision of 1,870 Crores as of April 20. As of June 30th, AUM is 1,38,000 Crores, moratorium is 21,705 Crores which is amounting to 15.7% and overall COVID provision and ECL provision is 2,973 Crores which is 13.7% of total provision.

For the first time we were helping the street by disclosing how did the fee income grew during this quarter. We mentioned that a 140 Crores of fee income has come in as a result of flexi, little that we realized that people are connecting the wrong dots, so let me connect the right dots from our perceptive. Flexi product, or flexi loan product was launched in 2013 by us as a company for loans against property customers as a competitive tool against OD / CC. Gradually, as we saw the power of it, we extended this offering across all our lending businesses like personal loan, doctors loan, SME loans and loan against security. Fundamentally, if you are a customer, it allows you to draw when you want and pay when you want, giving you a complete flexibility and control over interest out go. You may have 0 drawdown and 0 interest repayment, or you may have 100% drawdown and pay interest on that. You can choose the drop line flexi or a hybrid flexi. Drop line flexi fundamentally is like a flexi saver or a home saver that some of you may have had, where the amortization starts on day one. Hybrid flexi works exactly like overdraft or a cash credit account. In both the products customer has to service interest or EMI as the case maybe based on utilization level. We do charge the customer 25 to 50 basis points higher pricing on flexi products. Customer does pay an annual AMC which can range anywhere, depending on the product, between 25 to 100 basis points, generating a fee income for us. On a lifetime basis, in the last seven years, in my experience that this product is distinctly more profitable despite loan losses being marginally higher compared to term loan due to slower amortization.

The main product that we offer on a 7100 Crores of doctor portfolio is only flexi. 90% of of salaried PL is offered only in flexi. 100% of LAS portfolio is on flexi, 60% of LAP and LRD portfolio is on flexi, 65% of SME which is 11,000 odd Crores portfolio is on flexi. This is because these clients have surpluses and cyclical need. Fundamentally, I would like

100% of these clients to get flexi products because I get more fees, they get more cyclicality, I have greater competitive product to manage my good customer portfolio. In fact, our challenge more often than not on this product is the utilization rate. Utilization rates in flexi essentially run between 60% and 85% of the approved line as a framework. We offer conversion from term to flexi in general. Now this is the movement of truth business if any of you would like to go ahead and take it, we can offer it to you tomorrow and you can take it.

I want to just remind everybody that we are in a pandemic time. To help our good performing and never overdue customers navigate COVID and to grow our fee pool during this pandemic when everything is in lockdown and all business were shut, we chose to offer term to flexi conversion to a set of clients. Let me reiterate, never overdue customer means a customer who never had any installments overdue in his entire relationship with BFL. As serendipity however it also emerged that we never offered it to our personal loan cross sell customers as well. So, we went out and offered it to them and which we will do even going forward. 8,600 Crores of conversion number that we have given to the street generated a fee of 147 Crores. Additionally, it will also generate AMC on every anniversary depending on the segment. Out of the total conversion of 8,600 Crores, 5,000 Crores were from customers who were not even in moratorium. They were serving their term loans successfully even during these times, balance 3,600 Crores who were never in delinquency and had a good bureau score but sought moratorium to conserve cash in pandemic. What we are seeing on these 3,600 Crores customers is significantly lower bounce rate and collection efficiencies are at pre-COVID level. At this point in time based on the banking, only 26 Crores of these customers have flown forward in the month of June. At a fundamental level, as we get out of this COVID-19 pandemic, we believe that on a click of a button we will be able to covert from term to flexi and flexi to term on our digital assets. That is really where we are fundamentally headed and I thought I will clear the air.

Let me come to the second point that we have not provided bounce data. Let me just remind, while you all will appreciate that we provide utmost disclosure to street in general. Bounce was a topic that we talked about in our first update on COVID-19 on April 6. It was important that when we came in May we should not have break the chain and thus published the data. However, post that lots of you got on call with me or with Sandeep and we realized that the analyst community and investors struggled with the disclosure. If I further to add to it, You know the monthly banking in the last four months has actually dropped by 18% so if you look at aggregate percentages they would not really help and that is why we have not provided the data. But I can say to you that the bounce rates by each portfolio in general are dropping by 3% to 4% every month over the last three months. If data can be provided the answer is yes. Of course, I must just say that the big drop fundamentally will only be evident and visible by September when moratorium ends.

There is also some chatter on why you have not provided customer franchise. May I just remind you again that we are in pandemic times and because of moratorium everything is within a static mode. We will refresh our customer franchise data only by October, One on basis September and October bounce rate number, two on repayment, and three on bureau refresh. The only relevant data on that panel for Q1 was the addition of 0.5 million customers to our gross franchise which we have already disclosed.

Let me come to the last two points and then I will open up for questions. First is on portfolio health charts. As I had said earlier, everything is in a static mode due to moratorium. 0 DPD, 30 DPD, and 60 DPD portfolio movement are on a standstill either due to customer requested or Suo moto moratorium. The only DPD at this point of time which is moving is 90 DPD which if you draw the dots, has resulted in loan loss provisions of 255 Crores in Q1 already and as it represents ECL stage three provisions and write-offs. If we had populated 0, 30 and 60 as current because of Suo moto moratorium or customer requested moratorium, it would have represented an artificially rosy picture which would have not been a prudent thing for us as a company to do. We will reinstate portfolio charts from Q2 onwards, post ending of moratorium. If RBI, let me make a point, were to extend moratorium further we will still not be publishing it. This will only be published post normalization or ending of moratorium is the limited point I would make not for anything else because it is otherwise artificial.

Let me just come to the last point on loss forecast. In general it is our view as a company that we need to prepare for the worst and hope for the best. If we believed, as a company that all is well, we would have not reduced 300 Crores of Opex on a sequential quarter, despite Ind AS accounting wherein a variable sourcing cost gets amortized with income over life of the loan. Reason for increase in the loan loss forecast is primarily on account of continued disruption in economic activity owing to persistent lockdown. 86 markets representing 15% of our business is currently in complete lockdown and this is true for every lender in this country. Mind you this does not include markets like Mumbai which are considered open, but are functioning probably at 25%, 30% level. Even markets which are considered open, there are a lot of nuances like weekend curfew, some states are running two days curfew, some states are running one day curfew in a week etc. This reduces the number of working days and in general disrupts the momentum. We have factored in these additional nuances in our risk model or our credit cost model and have thus accordingly increased our credit cost guidance. If things do change for the better, let me make a point, we entered the pandemic with a completely clean balance sheet. We charged off the two large accounts that we had and I have nothing else to charge off. We entered in the pink of health from the portfolio standpoint so there is nothing to clean and we are still taking these charges as I said because we want to prepare for the worst and hope for the best. All actions that need to be taken to protect and prevent credit cost from rising have already been taken but it is important that we protect the P&L. If things change for the better, we will have balance three quarter to adjust accordingly is really the thought process that we have had in increasing our credit cost forecast.

I did have some more point, but I do not want to be a monolog. I will just make one point that 70% of the management effort in the last quarter has gone into how do we transform the company to prepare when we get on the other side of the tunnel. We do very strongly believe that never let a crisis go waste. This crisis is showing up tremendous challenges in the short-term but tremendous opportunities in the long term. There will be structural change in the way our business will be conducted. Some of the cost lines may get permanently eliminated if we manage to transform what we are planning to. We are quite confident that in 9 to 12 months' time you will see a very different moment of truth. Between me, Sandeep, Atul, Anup, Deepak happy to answer whatever questions you have. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Antariksha Banerjee from ICICI Prudential Asset Management. Please go ahead.

Antariksha Banerjee: Congrats on the numbers, and first let me appreciate your disclosures especially on the flexi loan. I had two specific questions on the same. One is on the portion of this loan that is currently under a principal holiday because as you yourself acknowledge that the macros and the environment is not really great. So if somebody is today not making a principal payment or full EMI payment, would you be in a position to say how much of this total book is currently under principal holiday and only making interest payments. The second is while you give these products to specific sets of customers what are the negative filters that you apply. Now I understand you say that no overdue is one of the conditions. Are there other conditions like some occupation which are black listed or some other negative filters that you may have in this one?

Rajeev Jain: Antariksha let me simplify the conversion that this is a level two filter which means first whether we want to give you money. Number one it depends product-by-product, number two even there based on our stance if it is in general a lower risk business we offer it to all, so doctors portfolio we offer it to 97%, 98% of our customers, salaried PL in general we are keen to offer it to 95% of the customers as I said 90% of customers of doctors loan land up taking it, so it is a level two filter. We see utilization rate itself is 60% to 85%. Now coming to the structure of the product, structure of the product has got nothing to do with COVID or moratorium. You may be a doctor Antariksha who may have taken a year ago a flexi product of 15 lakhs, your utilization may have been 10 lakhs you may be in a one year product or a two year product or in a drop line product, that structure has not changed for a customer and it has got nothing to do with COVID or with moratorium

Antariksha Banerjee: Just one follow-up if I may, what I am trying to say is since you started the product so maybe the sanctions that you made for the last two years since then today we know the macro, I mean it has got worsen as yourself admit so some of your customers income earning capability itself would have gotten worse. So in your estimate people who are only paying interest I mean probably are in the first year or second year depending on the product how much would you estimate to be under stress based on what data you analyze their income earning capability or whatever you would use to analyze that?

Rajeev Jain: We saw the lowest economic growth for us as a country in 2019/2020 and despite that if you take out the onetime provision on two large accounts that we took, the credit cost moved only by 20 basis points and this 36,000 Crores of book was sitting there. As I said earlier, adjusted for margin this performs better on a ROE basis at a design level, structurally over the last 7 years.

Antariksha Banerjee: But because of COVID does that change, or it is still you think where it was?

Rajeev Jain: COVID as I said earlier in general, we will see far greater clarity, not for flexi but for anything as moratorium ends. The big month will be when moratorium ends. Is there a reduction in bounce rate with each passing month by portfolio? the answer is yes, is the collection efficiency going up? answer is yes, is it going up by what we would have liked it to be answer is no and this is because of continued disruption in economic activity. So, we all must fully wait as the banking system or as the financial system fully for what happens in September as moratorium ends.

Antariksha Banerjee: Thank you so much that is all.

Moderator: Thank you very much. Next question is from Kuntal Shah from Oaklane Capital. Please go ahead.

Kuntal Shah: Thanks for excellent set of disclosure I believe you exceeded almost this year by any other clear in the BFSI segment. My two questions: First one is, you have an ECL provision of 623 Crores, COVID provision of 2350 Crores, 220 Crores of Morat book interest written-back, 303 Crores of Karvy written-off, 275 Crores of IL&FS written-off and in both of the last 2, you have still security. So this total is amounting to almost 3500 Crores of provisions less ECL, so any light you can throw on that on why it is such a large magnitude? Is it by business or is it because of precaution or what? What is the reason of such a large percentage and second is we saw the wallets have jumped 75% to 15 million and credit card by almost 80% so any flavor you can give on the credit card and wallets business which you have not touch based upon in your speech?

Rajeev Jain: So Kuntal on your first point I would just make a point that we would like to run a fully costed P&L, that is really how we have run the company that account for losses early rather than later that is the reason why we are a risk driven company. We run 40 different P&Ls as a company across businesses when provisions flow through the P&L the business manager wakes up and takes a set of actions to prune bottom 15%, 20% of the business, number one. Number two this pandemic is like something we have never seen before, we have not seen this kind of bounce rate or nobody have seen this kind of bounce rate nobody have seen this kind of collection efficiency nobody have imagined we will all be operating from home for 120 days, but we do as a philosophy believe that we want to run a fully costed P&L to the extent of information available to us earring on the side of conservatism and caution rather than believing all is well, so that is my first point. Point number two on wallet and credit card, wallet is 15 million, customer are 43 million fundamentally there should be a day when all are customers should be wallet customers and there will be a day that is the thought process and the frame work that we are working with. On credit card, we would like to be among the top three or four card issuers in India, we are the franchise and the customer base as a major of conservatism we started to originate only in the month of June new customers we are still at only 25%, 30% of, 20% levels in June we were in July we hope to be at 30% levels and it continues to remain a reasonably disproportionately profit pool for us and for RBL who is our strategic partner.

Kuntal Shah: Rajeev anything on 0 based budgeting and what does it mean for shareholder?

Rajeev Jain: What it mean for shareholders is that fundamentally there should be dramatic, if I simplify the conversation it should fundamentally mean significantly lower friction, significantly higher velocity, net-net significantly lower cost. Our Opex to NIM which is at 31.5% as we come back to full demand potential sometime in FY22 do we believe that, that number can go to 28% - 29%.

Kuntal Shah: Thanks Rajeev all the best I will join the queue.

Moderator: Thank you. Next question is from Bhavesh Kanani from Ask Investment Managers. Please go ahead.

Bhavesh Kanani: Sir the amount of reduction we have seen in moratorium, you did mentioned the extent of flexi you have done during the quarter, can you help us or probably putting perspective your understanding of how much reduction in moratorium is due to flexi or such alternate products and secondly by virtue of the fact that moratorium was taken out of fear and with cash flows or salary intact people have resume normal repayment?

Rajeev Jain: Yes, so as I said Bhavesh when I was making the point the total amount of conversion is 8600 Crores, 3600 Crores were clients who had, I will repeat what I said out of 8600 Crores 5000 Crores came from customers who are not in moratorium so let us for a movement for simplistic purposes let us add this 3600 Crores to 21705 Crores the number still gets to 18.3%. Whether it is 15.7% or 18.3% did not really matter quite honestly I could have still argued that it is a 27% going down to 18%. The point fundamentally was that as I said earlier we were trying to draw the dots from a fee side and we would like to tell street what we were up to in Q1. As a public company what were we as management up to? We as a management were up to employee safety, capital preservation, liquidity management, business scenario planning, Opex management, collection capacity augmentation, customer proposition, flexi and EMI card sit in customer proposition business transformation framework. This is really a flow in terms of what were we up to in the last 100 days, so for simplicity if I can add to it, it is 18% which doesn't make it big deal.

Sandeep Jain: See another point is that this product is offered to a set of customers who have performed reasonably well with us in the past. Secondly, i think in the current situation it is very, very important that customer starts getting back into repayment behavior, keeping the customer in moratorium is not in the interest of anybody neither the company nor in the interest of customers, it is important that customer comes back into the habit of making monthly payment.

Bhavesh Kanani: Okay that is it, thanks for this.

Moderator: Thank you very much. Next question is from Prashanth Sridhar from SBI Mutual Fund. Please go ahead.

Prashanth Sridhar: Just two questions from my side, if bounce rates would not give an accurate picture maybe if you can just give us the total amount of collections that was due for June against that how much is actually collected number one and number two, how big is the gold loan business AUM and are you incrementally competing with the bigger gold NBFCs that is it?

Rajeev Jain: So, bounce rate as I said is dropping by 3% to 4% and collection efficiencies have moved anywhere within 8% to 10% specially in the month of June. In July we are forecasting it to move by another 8% to 10% subject to how open the country remains. Having made both these points that there is reduction in bounce rates, there is increase in collection efficiency as a result reduction in moratorium we are still way off from where we use to be pre

COVID that is an important point I want to make because it connects to the eventual credit cost. Are they moving in the right direction, answer is yes but slower than I would like the answer is yes. We have 45 more days before the moratorium ends so that is an important 40 or 45 days from here on. We started gold loan in rural market three to four years ago, we tried to be intelligent and realized 18 months ago that it really does not work and decided to do how traditional gold loan works. The business is now aggregating 70 to 80 Crores of net asset per month and AR is between 1500 to 1700 Crores, we are rapidly expanding gold loan in 75 plus markets. Today we offer it in 400 cities, we will grow this much more rapidly.

Prashanth Sridhar: Sure Sir. Thanks.

Moderator: Thank you very much. Next question is from Preethi RS from UTI Mutual Fund. Please go ahead.

Preethi RS: I want to understand what is the increase in the collection the network that you have increased if I remember in Q1 FY2020 the number was 3500 so if you could explain the 2800 and 16,000 vis-à-vis that number?

Rajeev Jain: 4500 offers are in addition to the 4500 we had that officers on the company's rolls 16000 is agency staffs.

Preethi RS: And what would that number be back in June 2019?

Rajeev Jain: Around 28000 to 30000 is really what a ballpark number would be.

Preethi RS: Okay so 30000 is now close to 46000.

Rajeev Jain: Yes.

Preethi RS: Sir and the second question is on the employee cost, you did mentioned that there has been salary cuts but how are you boost employee morale and situations like this?

Rajeev Jain: So, fundamentally it is a little ironical that in the quarter that we actually cut salaries we became the fifth best employer in India, we do believe people is capital in our business, people make a business. The stand that we as management have taken is fundamentally that in good times employee first, in bad times shareholders first. Now it is a first time in 13 years that we are fundamentally doing a shareholder first and we will remain shareholder first until we come back to growth stance. We have long serving employees they understand the point is it difficult because effort is 2x at this point in time and outcome is half right or let us say 70% or 80% if you add incentives they are earning 70% of that what they would have earned so effort is 2x and reward is 0.7x but once in 13 years it is okay to have shareholder first and balance 13 years we will have employee first and as we come back we will ensure that we reward those who persist with us in getting the other side of the tunnel.

Preethi RS: Sir just last question that I had is on the auto finance book the provisioning on the morat AUM is at 12% which is lower than the overall average at 14% while the logic would said this that you would probably provide higher since it is a mass segment compared to a mass affluent segment of the other portfolio that we have?

Rajeev Jain: Mainly our assessment is that as a result of repossessions and the residual value in general historically being 45% to 50% and we expect it to be little higher because of BSVI conversion in general the prices have gone up of second hand assets, that is the fundamental logic behind why that number is at 11.8 versus in some of the businesses at 21 and 22.

Preethi RS: Okay Sir got it thanks a wish you all the best.

Moderator: Thank you. Next participant is Roshan Chutkey from ICICI Prudential Mutual Fund. Please go ahead.

Roshan Chutkey: Congratulations on a great set of disclosures and a great quarter. Firstly Sir what is the collection efficiency at least number what you said that three months of the quarter if you can just share that?

Rajeev Jain: It differs product-by-product…

Roshan Chutkey: At a company level?

Rajeev Jain: No Roshan I mean because if you have let us say auto finance business was in Suo moto moratorium. So by business that the number has to be seen because let me give you a texture on it, in terms of number of clients the largest is sales finance. So, the number will obfuscate the point one has to look at it portfolio-by-portfolio now rather than on an aggregate number basis, is the limited point I would make to you. As I said earlier are we seeing bounce rates go down yes every month answer is yes, are we seeing collection efficiencies go up answer is yes at the phase at which I would like it to be answer is no and so that is really what our stance is at this point in time.

Roshan Chutkey: What percentage of the portfolio has paid all the EMIs?

Rajeev Jain: Yes portfolio that is fundamentally current that means minus morat, am I understanding your question.

Roshan Chutkey: Including morat including everybody what percentage of the portfolio has paid all the EMIs thus far?

Sandeep Jain: See Roshan for the current quarter that number may not be relevant because of the standstill nature of the book because of moratorium however what maybe important to see is that the moratorium book has come down from 27 to 15.7% as Rajeev has articulated earlier, second the other part of balance sheet has remained on standstill mode from classification point of view so if the customer was in 0 DPD it remains on 0 DPD, customer who was in one, let us say one month over due, or two month over due remain in that bracket so that will take on to relevant in the current quarter however I will come back to you separately on the number part.

Roshan Chutkey: So what exactly the word definition, if somebody makes even one payment among the three or four payment that are pending is it deem to be the out of moratorium?

Sandeep Jain: These are set of customers who have come out from moratorium based on their June repayment.

Roshan Chutkey: One month repayment is good enough?

Sandeep Jain: Repayment has given in the month of April customer may have paid in the month of May customer may have paid in the month of June he is no longer in moratorium so 21705 Crores worth of customers have taken moratorium for the month of June as well.

Roshan Chutkey: And this 220 Crores of interest reversals so when did we charge them to reverse it I mean which period have we charged them in the first place sir when you say it is an interest…

Sandeep Jain: This is the interest earned by capitalizing the interest during the moratorium period the amount is around 1700 Crores of interest that is levied on the customers during moratorium period, the company believes while it is making provision to the tune of 13.7% on the principal component, there ought to be a provision that needs to be made on the interest component as well.

Roshan Chutkey: Alright thank you so much Sir.

Moderator: Thank you very much. Next question is from the line of Nischint Chawathe from Kotak. Please go ahead.

Nischint Chawathe: Sir just trying to understand these 38000 Crores AUMs and the moratorium going down to 21700 so these customers the difference is actually paid all their EMIs till June right they have cleared all their dues?

Sandeep Jain: Nishchint as I clarified to the previous speaker this is set of customers who have not paid their installment in the month of June, the customer, may have taken moratorium in the month of April customer may have taken moratorium in the month of May however if they have paid for the month of June they are out of morat if they are still not paid for the month of June they continue to be in morat.

Nischint Chawathe: Okay so these 17000 odd customers who will be the ones who have paid the June installment and hence they are out of the moratorium, it is possible that tomorrow let us say some of them do not pay the July installment they can come back in to the moratorium?

Sandeep Jain: It may so happen that for 5% of this 17000 Crores worth of customers may in the month of July come back and seek moratorium again if they seek moratorium, they will be added back to moratorium pool.

Nischint Chawathe: But what you are saying that the 17000 got moratorium in the first two months but today they are not in the moratorium so technically these numbers change every month it is not that we need to clear all the dues to get out of the moratorium?

Sandeep Jain: I think Nischint the important point is that structurally from trailer information point of view when you look at data of 30th April interim we look at 31st of May and not 30th of June we have seen structurally the moratorium book going down so while hypothetically you can see the number go to higher level when the moratorium period is over, looking at the trailer information, looking at bounce rate, looking at the collection efficiency we have reason to believe that we are on right path.

Nischint Chawathe: No, no that is fine, actually I was asking this question because we are just trying to compare across companies, so we just thought I will put a case. The second thing is now looking at the provision of around 3000 odd Crores which is around 14% of the total loans under moratorium as we speak, now I think we have guided for around 6000 Crores of provisions for this year which practically means that we are looking at somewhere close to around 30% odd coverage on loans under moratorium is that the right way to think about it?

Sandeep Jain: Nischint, Loss need not necessarily come from the moratorium book. We still have 1,15,000 Crores of balance sheet that is provided at normal rate of ECL it may so happen that alternate book will give you higher losses but you will also see some losses coming from other part of the balance sheet as well.

Nischint Chawathe: And just one last one was on the mortgage business where I think you have mentioned that you are facing some competition so there is some change that you are making but I did not kind of clearly catch what you are trying to say?

Rajeev Jain: Just on the previous point Nischint, It is important so that we are all on same page about the purpose of moratorium, that when everything is shutdown, clients position stays stalled at 0 and as things come back, as the income/salary comes back, as the anxiety level goes down, he starts to repay and continues to clear because the environment has eased or cleared that is really the objective of providing moratorium. It does not mean however that all of it will come back to normalcy and which is really how our credit model has actually been created so that we are distinguishing between the two at a fundamental level. Last point I will make all of this anyway will end on 1st of September and that is why I made a point earlier that for the entire banking system month to watch is September, if RBI does not provide an extension of the moratorium.

Sandeep Jain: So Nischint just a last point I think as you published even the portfolio chart what we provide you is the point in time information let us say on 30th of June X percent of the customers who are in bucket one, bucket two and so on so forth it will be so happen that some customers from bucket one may go back to zero some from zero may go back to one and this may keep happening over the next couple of months as well, it is a static position as at 30th of June that is how we should look at it.

Nischint Chawathe: Sure on the mortgage question?

Rajeev Jain: Mortgage, we started business in June again it is obviously very, very soft at a fundamental level now. On top of it, there is significant competitive pressure so fundamentally saying is that we will have to reoptimize between our various portfolios of mortgage offering to make sure that we are able to deliver the economic return to the shareholders. It is a strategic business which is helping during these times that is very evident and clear for whole lot of people who had a question that why do we do this business. It is providing the required safety and stability which is really why we built out a 46000 Crores portfolio. As you can see the morat rate is lower. So, it is just re-pivoting in terms of mix a little bit to deliver minimum model rate of return and equity and nothing else.

Nischint Chawathe: So, basically either we are raising home loan rates or you are moving from salary to self employed or something like that?

Rajeev Jain: No I mean we will based on as we grow little more comfortable if you go back to the previous two panel number 4 as you can see there we started home loan in June as you can see it point number 5 on panel number 5 we started loans against property only in July. So the risk view does not change but within that we will re-pivot a little bit to deliver minimum model rate of return and equity also it compromises the risk we would not even do that at a design level.

Nischint Chawathe: Sure, okay got it. Thank you. Thanks a lot, and all the best for the future.

Moderator: Thank you very much. Ladies and gentlemen due to time constraint that was the last question for today. I will now hand the conference over to Mr. Karan Singh 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.

Moderator: Thank you very much. On behalf of JM Financial Institutional Securities Limited, that concludes this conference. Thank you for joining us, you may now disconnect your lines. Thank you.