"Bajaj Finance Limited
Q1 FY '24 Earnings Conference Call"
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Good day, and welcome to the Bajaj Finance Limited Q1 FY '24 Earnings Conference Call. This call will be recorded and the recording will be made public by the company pursuant to its regulatory obligations. Certain personal information such as your name and organization may be asked during the call. If you do not wish for it to be disclosed, please immediately discontinue this call.

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 star then zero on your touchtone phone. I now hand the conference over to Mr. Anuj Singla. Thank you, and over to you, sir.

Anuj Singla: Thank you very much, Neerav. Good evening, everyone. And this is Anuj Singla from Bank of America Securities. Thank you very much for joining us for the Bajaj Finance Earnings Call to discuss Q1 FY '24 results. To discuss the results, I'm pleased to welcome Mr. Rajeev Jain, Managing Director, and Mr. Sandeep Jain, CFO, and other senior members of the management team. Thank you very much Rajeev and Sandeep for giving us the opportunity to host you.

I now invite Rajeev to take us through the key financial highlights for the quarter, post which we will open the floor for Q&A. With that, over to you, Rajeev.

Rajeev Jain: Thank you, Bank of America. Thank you, Anuj. I have with me 2, 3 of my senior colleagues, Atul Jain, Managing Director, BHFL; Rakesh Bhatt, Executive Director, BFL; Anup Saha, Executive Director, BFL; CRO, Fakhari Sarjan; and Anurag Chottani, who is the CIO. I'll quickly take you through the investor desk that has been uploaded on the investor section of the website. Let's go through that.

Jumping right to Page 4, quickly on executive summary. I would say, reasonably very good quarter, so excellent quarter, as you can see, I've written there, across all financial and portfolio metrics, delivered highest ever AUM growth of INR22,718 crores, booked 9.94 million loans. So day is not far when you're looking 10 million loans in a quarter. Book -- added 3.84 million new customers in Q1. Overall, app itself now has 40 million customers in terms of net users. MAUs are now touching 20 million to 23 million in a month. AUM came in at INR270,000 crores, growth of 32%. Opex to NIM continued to slide down slowly, came in at 34%. PAT, growth of 32% at INR3,437 crores. ROE, just a tad below 24.5% on an annualized basis. Net NPA at 31 basis points.

Very quickly some 5, 6 points on Panel 5. Highest ever AUM growth. Based on this, the way it looks from a full-year standpoint, it looks like the growth on a full-year basis will be doing 29% and 31% for FY '24 versus 27% to 29% that we had outlined in Q4. New loans booked, up 34%. B2B disbursements overall were up 37% at INR22,600 odd crores. Customer franchise, highest ever customer franchise edition. We foresee that we would add 12 million to 13 million new customers in FY '24 fully. Based on how things go in Q3, number could be marginally higher as well, but we'll see how it plays out.

Customer franchise and we'll cover that that how in terms of total customers to franchise, the gap is widening, which means the customer franchise is growing faster than customer acquisition. That's a good sign, that we're getting better customers through the door. And I'll cover that in the panel as I come through it. Overall franchise stood at 73 million customers. Cross-sell franchise stood at 44.3 million. Added 95 locations, 12,500 distribution points, total 3,828 locations.

Liquidity buffer continues to remain strong at INR12,700 crores, keeps hovering between INR12,000 crores and INR15,000 crores in any quarter. That's really where it is. Cost of funds, which is slowly rising in the last 2 quarters, continues to rise. It came in at 7.61%, an increase of 22 basis points. Overall, reasonably strong ALM. We have demonstrated over the last 4 quarters itself. And the diversified balance sheet profile. The net impact of NII, sequentially if you look at, it was 11 basis points. So cost of funds is actually overall more in the last 3 quarters, Sandeep bhai, at 60 basis points?

Sandeep Jain: Yes. Little more.

Rajeev Jain: Little more than that. So I mean, 60 plus 22, actually 82 basis points and the NII impact has been 30-35 basis points. We continue to expect gradual moderation in this, as the balance 3 quarters go by. Hopefully, sometime in FY '25, we'll start to see a reversal as well.

Panel 6. What I just want to cover is operating efficiency. NII grew by 26%. Opex to NIM improved to 34%. Employee headcount, this is a new metric that we've started to publish. Headcount, we were publishing last year as well. We added 3,420 employees in Q1. Annualized attrition in Q1 full-year annual attrition last year came in at 19% for BFL consolidated. First quarter annualized attrition is at 13.8%. Last year same time, it was 14.5%.

We took a decision last year actually. The year before if you look at it, it was 28%. We took a decision that we need stability across all levels of management, and that's why a set of management decisions were taken and they yielded a 19% annualized attrition last year. And this year, the first quarter trajectory at this point in time is looking further down from last year.

Credit cost came in at INR995 crores. It included a further release of INR120 crores. So total credit cost came in at INR1,115 odd crores. Sandeep will provide an explanation on that at the end of my update. GNPA ever lowest at 87 basis points and NPA 31 basis points. Apple-for-apple comparison, lowest. But because there was a point in time and we used to be publishing 180 days, we used to be publishing 120 days based on RBI guidelines. So without doing retro, even NNPA number is the lowest, we are reasonably clear about it.

Stage 3 assets continue to see a decline even at INR2,348 crores versus INR2,539 crores. Risk metrics across 11 lines that we published were green, except for one line of business which is Rural B2C that from a management assurance standpoint, we have shown as yellow. It also saw muted growth in the process. We've cut business on a monthly basis in that line of business, but

INR200 crores to INR250 crores a month. So from a management, when I take you to the panel, you can see that the current balances in that portfolio are down only 10 basis points, but we have pencilled that in as at a management assurance level yellow because we have taken business decisions to cut business in that line of business. It'll remain that way I suspect from here till November, December. But from there on, it should come back to the stronger growth again.

Profitability, capital adequacy, Panel 7, was strong at 24.61%. Tier-1 capital, 23%. Bajaj Housing Finance, the numbers were released day before yesterday because that's when it's board meeting was. AUM up 29%; home loans grew 19%; loan against property grew by 5%; LRD made up for it grew 83%; developer finance grew 76%; rural mortgages grew 16%. Portfolio composition remains at at 58%, 9%, 18% and as you can see that here. Approvals were up 18%. Overall approvals were just a tad below INR19,000 crores in Q1 against INR16,000 crores in same period last year.

BHFL operating efficiencies, they continue to NII grew 18%, opex to NIM continues to go down. Came down from 26.8% a year ago to 24%. Headcount stood at 2,773. BHFL, GNPA and NNPA were industry's lowest is what I suspect at 23 basis point and 8 basis point. Stage 3 stood on a INR74,000 crores balance sheet at INR152 odd crores. BHFL profitability, profit before tax grew 23%. After adjusting for reversal of deferred tax liability, PAT growth was 23%. But otherwise, it was 46% and we will provide an explanation after my comments on that as well. Move.

Let's now jump quickly to Omnipresence. Clearly, you can see that's Panel 11. Numbers are moving well. Downloads were up at 15 million in the quarter. These are all organic downloads, mind you. We spend very little or none on marketing. Clearly, it's just integration of the entire eco system, and net installs grew on a year-on-year basis at 75%, in-app programs grew 90%. We continue to hold our ranking at 5. Service requests, which used to be 15% of the app of overall request, are now up at 34%. UPI handles added 15 million at 329% growth. Bill pay transactions, 164% growth.

Merchant QR at pause crossed 1 million. We are now running a run rate of 350,000 a month. So we foresee very clearly to be between 3 million to 3.5 million merchant QRs, which would be 9% to 10% of total QRs installed in the marketplace, so we remain on track. Rewards issued up 277%.

EMI cards acquired, so you can see the numbers here. We continue to make progress. Our so-called Phase 3 for the app and web is ready. Planning process, you will start to see that. We've stopped to publish that because it's a BAU frame from here on, but significant investments continue to remain committed to invest in the digital ecosystem both on app and on web. And numbers are supportive of that and the talent that has been developed is able to take on more and more in -- from a digital ecosystem standpoint.

Let's quickly jump to Panel 13. Numbers are moving well here. Average AUM per -- so as you can see, the point that I made, total franchise grew on Row number 5, by 21%. Cross-sell franchise grew 28%, 44.3 million customers is what we classify as cross-sell franchise. Overall

AUM per customer was at INR61,000 and PAT per customer franchise continues to move well in line. So there's it's a good story there.

Let's quickly jump to the portfolio quality that's on panel -- new car financing in the meanwhile, just to make the point as we're on live, this is the second month of the business, we are quite excited about the business and it's a business that we've launched in 80 cities across India because we had a used car business, so the platform infrastructure was available. But even then, it's a largest big bang that we have ever done. We foresee that it could be a INR200 crores to INR250 crores per month new acquisition as we exit March 2024. So that's a completely new line that would get created as we exit the year.

Just go back 2 panel to -- in terms of portfolio mix, just in Panel 45, remain steady on a year-on-year basis, 2- and- 3-wheeler finance is 5%, 8%, 8%, 21%, 20%, 2%, 2%, 8%, so no change largely, as you can see. And as I said in the AGMs, just 2 hours ago, the -- one of the things that we're very happy about is that our -- across these 9 lines of businesses, there's been no shift in the last 6 years in terms of mix that has ensured that we've delivered scale, it's ensured we've delivered consistent profitability, it's ensured we've delivered stable risk metrics. And also said in AGM that I don't foresee this bricks changing to significantly. That's all.

Probably 1 or 2 percentage points here and there, but largely, if I look at the last 5, 6 years, the mix largely remains very same or similar. And if you classify between low risk to low risk and high risk to high risk, the mix is not so that's just one point. But on a year-on-year basis, mix remain pretty steady.

Quickly to the Panel 52. You can see all greens here. Consumer durable portfolio 99.58%, similar to Q4, 35 basis points, Stage 2, you can see 2-wheeler, 3 wheeler, even the non-captive business is added here now. At a point in time, when it scales, we'll -- that is some time away, but that's sitting here, it's at 94.5%, as you can see the numbers here. So all green here. The only yellow, here that I do want to talk about is Rural B2C.

If I look at the current, Stage 1 assets were 98.13%, came in at 98.01%, 158 basis points, Stage 2 is 170. But given that we have tightened our credit standards and filtration criteria, we thought it prudent to just flag it that we've seen some level of risk here and we have cut the business, is the only principal point from a management assurance I wanted to make. Otherwise, rest of the portfolios are in pristine health.

That's from me. I just want to hand over to Sandeep. Loans against securities, as you can see here, 100% current commercial lending. Just on loan loss, I just want Sandeep to spend 2 minutes.

Sandeep Jain: Yes. Hi, this is Sandeep Jain here. So just to begin with, I think, I'll normalized the numbers first. I think last quarter, we had released overlay of INR40 crores. In the current quarter, the overlay release has been INR120 crores. So the last quarter number, INR860 crores, that was reported, the actual gross number is INR900 crores of flow forward loss that we have seen. The current quarter number, INR995 crores with adding back INR120 crores of release comes in at INR1,115 crores. So that's a growth of about INR225 odd crores.

Now, there are couple of things in that. One is because we are under Ind AS, wherein even the standard assets require a provisioning under Stage 1. In the current quarter, we have seen balance sheet growth on a sequential quarter basis, being INR6,000 crores higher than last quarter. So last quarter, we grew by INR16,500 crores. In the current quarter, we grew roughly by -- roughly around INR22,700 crores, that INR6,000 crores of additional asset. That created additional requirement of about INR30 crores, INR35 crores of ECL provisioning in Stage 1. That's point number 1.

Point number 2 is all of us are aware about what's happening in Manipur. We have taken a call to offer moratorium to set of customers in Manipur. In fact, the entire portfolio is put on moratorium, the amount is not large for us, but we have taken a provision of INR415 crores for Manipur portfolio in the current quarter, which is a one-timer provision. That's second number. Third thing is, and of course, if I normalize this, the gross loan loss to average AUF for Q4 came in at 1.54%. Adjusted for some of the items that I called out, the number comes down at 1.68% for Q1 current year. On a full-year basis, we believe this number could remain range bound between 155 basis point to 165 basis point.

Now the last point, which is most important, we'd also articulated in past saying that we would use overlay to further strengthen our ECL model. We have done redevelopment of the model in Q4. We have taken certain amount of hits as part of redevelopment of model. In the current quarter again, because of the redevelopment, it's requiring us to make higher provisioning for Stage 2 and Stage 3 assets. An additional provision of INR50 crores has been taken in the current quarter, which has been consumed out of overlay.

So the INR120 crores of overlay release also takes into consideration INR50 crores of additional provision that we have consumed towards redevelopment cost, that's point number 1. Point number 2 is additional growth of INR35 crores on account of higher balance sheet, Manipur of INR15 crores and balance is a BA recalculation that we have done.

I hope that providing for loan loss number for the quarter and for full-year expectation. We expect that because of the redevelopment, we do want to capture provisioning early. The credit cost, as a result of redevelopment, could be anywhere between 6 basis points to 8 basis points higher than normal run rate. And that's the reason 155 basis points to 165 basis points is the guidance.

The other point was on INR73 crores of release in the deferred tax liability. See, we used to create 20% -- we used to transfer 20% of the profit of retail long-term housing finance business into reserve under the Income Tax 36(1)(viii), which is very clearly known to most of the investors, that also provides income tax shelter. We were hoping and expecting that because of the COVID situation in the last 3 year, there may be a probability of we dipping into the reserve for making provisioning in the housing finance business.

Having gone through the COVID period and not utilized the provisioning, the company has now resolved saying that it will not ever probably touch the reserve that has created under Section 36(1)(viii). As a result, the temporary difference that existed requiring us to create deferred tax liability does not exist anymore. As a result, INR73 crores has come back into the P&L.

Rajeev Jain: It will be going forward.

Sandeep Jain: Incrementally, as we go along from here, you will find that the housing finance tax rate may probably be 2% lower than the national tax rate. So that's the only update that I have on deferred taxes.

Rajeev Jain: Okay. Over to questions.

Moderator: Thank you very much. The first question is from the line of Bharat Shah from ASK Investment Managers.

Bharat Shah: Yes, Rajeev, a remarkable quarter in every respect. In a quarter way, the highest new loans book, highest acquisition of new customers.

Moderator: Sir, sorry, but your voice is not coming. It's little muffled.

Rajeev Jain: No, It's clear, it's clear, it's clear. It's clear to me at least.

Bharat Shah: Okay. I was just saying that remarkable performance in many, many respects, where highest asset booked during the quarter with the new customer acquisition, as well as new loans booked. And despite the fact that interest rates have been firming up, which for in NBFC of your nature, a bit more difficult because loans being relatively more of the fixed nature and yet, we have seen among the most efficient expense management, lowest credit cost and highest ROA. So in this very perfect-looking board, kind of a 10 out of 10 kind of a picture, what are the trouble spots or the areas of concern?

Rajeev Jain: I mean, Bharat bhai, thank you so much. I agree, it's been a good quarter. I had outlined even in my fourth quarter call we are little troubled about the level of leverage in the system, the amount of personal loan growth is troubling us. In fact, one of the objectives of us pencilling in Rural B2C was you're seeing growth even there in terms of level of leverage. So that's an area I would flag. I've flagged it even in Q4. I would flag it. So we're taking a sort of pre-emptive action in looking at aggregate leverage of consumer, secured leverage, unsecured leverage.

It's a little new normal that the credit models must optimize for, is the only point I would make. It's something that has coming back from a competitiveness standpoint or for a level of supply side outlook has not been experienced for a long, long time. So that's the only thing that we are watching for and acting on. In a nuanced manner, I must say, to ensure we stay out of trouble, but remain in the game. So that's what I would say, Bharat bhai.

Bharat Shah: Okay. And you have already guided for credit costs mentioned about generally kind of expectation of the asset built-up also for the year. The way they've been managed in terms of cost to the income ratio. Would we say that ROA that we touched, the highest in the history in this quarter? With all the moving parts, net-net, ROA were driven at similar or better level?

Rajeev Jain: Yes, so one of the things, Bharat bhai, that we've done as part of the Q1, because you don't want to be conservative, we don't want to be ultra-aggressive. For many years, our guidance was a 19% to 21% ROE. When I look at '19, '20, we were delivering 23%, 24% ROE. When I look at

'23, I look at 23.5% ROE. When I look at the Q1, the number is 24.5% ROE. So principally, we think that the business model is organized from a structural standpoint from 19% to 21%, to 21% to 23% ROE, is how -- and when we have started to now annually, our long-range guidance, virtually, our strategic frame is out there as an open book, example, people to execute on. That's the only difference.

So we think a 21% to 23% ROE, given '19, '20, 23%, 24%. And mind you, last year, we are no one-timers either as income or as credit cost and given the Q1. So we are pencilling in that the long-term guidance, we are upping from 19%, 21% to 21%, 23%. I must consider 5.34% or 5.3% remains to be one of the -- now adjusted for, it's 5.4% adjusted for the one-time deferred tax is 5.3%. We'll continue to work on adding value to shareholders, I mean. Without compromising, Bharat bhai, if I may just say so, on the longer-term quality of the business. I must just make that point as well. So ROE guidance long-term is 4.6% to 4.8%. We are here to create value for shareholders and that's how I would outline.

Opex to NIM, we think will continue too. We made in Q3, it's peaked out. While we continue to increase investments, I must say, in digital ecosystem, as I mentioned earlier, but just on the absolute nature of the cost pencilled in, we have clearly peaked. We will start to see operating leverage come through every quarter as you move from here.

Bharat Shah: Fantastic. All the very best on so many business verticals, with so many moving parts to achieve more than just the quantitative growth in the performance, I think qualitatively, it is remarkable, and really delighted to see that. Congratulations.

Rajeev Jain: We'll continue to work hard for shareholders.

Moderator: Next question is from the line of Piran Engineer from CLSA India.

Piran Engineer: Congrats on the quarter. Couple of questions. Firstly, sir, just I want to understand this fundamentally on Panel 41, where you give your customer franchise pyramid. So out there, let's say, I look at the 1Q FY '23 numbers, those customers who are part of the 60 million, but not part of the 35 million cross-sell franchise, can those customers be part of the 44 million cross-sell franchise today? Or do they remain in that bucket forever?

Rajeev Jain: So this is -- the model is fixed, right. Customer can go in and come out, but it's very hard. Anybody who goes into 30 million plus, mind you, never it's only possible where a customer defaulted paid money in 15 days can be going in and out. Any customer whoever went into 30 million plus, can never move these -- the filter. I think just at a fundamental level, you should be clear.

We don't deal with clients whoever go into 30 million plus, so that we are okay to deal with a minus 1 customer, but not okay to deal with a client who in general goes into 30 million plus, just at a basic fundamental principles of risk management and underwriting. You bounced, you could be in one of those, paid in 15 days, you could move.

But mind you, Piran, since you asked the question technically, I will answer you technically, we don't look at it, we are interested in the aggregate growth rather than and you can see these numbers are in millions. So it's mostly well in a month, 100,000 customers move here and there.

Piran Engineer: Okay. The reason I asked, and I don't want to be over analytical here, but out of 3.8 million customers overall that we added, the addition to the cross-sell franchise is 3.7 million, which is virtually almost everyone. So I'm just wondering, out of the old pool, if someone is now eligible. So simply put, someone who was not eligible for the cross-sell franchise earlier, today is becoming eligible because you may be loosened standards or whatever, that was how I was thinking.

Rajeev Jain: No.

Piran Engineer: Okay, fair enough.

Rajeev Jain: Piran, I must make a point. If you were to ever do, we would put a star mark here and pencil it in. Let me just make that point clear, so that we're all on same page. If we ever make a technical definition change in matters as important as this, I would pencil it in.

Piran Engineer: Got it. Fair enough. And sir, second point on personal loans and you've been calling this out for the last few quarters. Just wanted to understand for the industry, the strong growth we've seen more than 25% over the last three years, four years. How much of that would be driven by tenures versus core disbursement growth? And secondly, let's keep aside the fintechs, but the core Top three, four banks and you guys. Is everyone essentially fighting for the Top 4 crores or 5 crores customers of the country, or are the lenders expanding the pie year, in personal loan specifically?

Rajeev Jain: Clearly, pie has expanded. That is very clear. At INR35,000 crores, October, November, December '19 average volume has gone to INR65,000 crores October, November, December '22. This is bureau data, so this is not my data, which means treated as 99% accurate, plus, minus 1%. When we look at this data, we are present in 3,828 cities in India, we see penetration of personal loans all the way there as well.

When I look at even the 1,000 city and we track market share by disbursal in each market, we see even in the 1,000 city, there is competitive activity, one competitive activity across the board from 20,000 to 50,000 to 1,00,000 to 2,00,000 to 8 lakh plus. So we break personal loans from, let's say, 50,000 -- 25,000 to 8 lakh plus. There is expansion of pie, but their expansion of pie, I just only want to make one point, is not driven only by a select players, it's an industry-wide phenomena, straddles across public, private, non-banks, everybody.

So it's not a -- because this level of phenomenon of 89% growth on a three-year basis, when nominal GDP grew only 26%, cannot happen with a few players. It is an earlier point that I was making, Piran, on supply side, that's really what I meant. The supply is all pervasive in a reasonable manner across all asset classes.

Piran Engineer: Got it. And just, sir, last one for Sandeep, what percentage of our console borrowings would be repo-linked? I mean, console bank borrowing.

Sandeep Jain: I don't have it handy, Piran. I'll probably connect with you separately. Given that, we do largely fixed rate businesses and incrementally banks have started offering MCLR and repo-linked both borrowings, the proportion will be significantly higher for BHFL in terms of repo. For BFL, we may have decent mix of repo to MCLR and the other benchmark here. Atul is here. Atul is clarifying that even BHFL is largely linked to TBL rather than repo.

Atul Jain: Repo is around INR10,000 crores.

Rajeev Jain: For BHFL, out of INR69,000 crores -- INR74,000 crores borrowing -- I mean, balance sheet --

Sandeep Jain: INR10,000 crores for the repo linked.

Piran Engineer: INR10,000 crores. Okay. That's good enough.

Rajeev Jain: It's a fair question. Sandeep can provide you details.

Piran Engineer: Sure. I'll touch base with him.

Rajeev Jain: Yes.

Moderator: Thank you. Next question is from the line of Gaurav Singhal from Aspex Management. Please go ahead.

Gaurav Singhal: So you mentioned that NIM is expected to contract further for the balance of this year. So assuming the rates stay where they are, can you give us some sense of, is it more of like -- because this quarter is not that much, it's less than 10 basis points of contraction. So going forward, is it more like 30 basis points or thereabouts remaining for the next three quarters and we still stay at 10% plus kind of NIM for the year? If you can give some thoughts on that, assuming repo rates stay where they are, that'll be very helpful. Thank you.

Sandeep Jain: So Gaurav, if you look at the numbers for the current quarter, the interest cost has gone up by 55% versus last year, versus 37% growth in interest income. So on Y-o-Y comparison, definitely, the cost of fund has gone up significantly, of course, on the back of 250 basis point increase in the repo rate. We did provide us some guidance around NIM compression for the current year. The Q1 came in, to our surprise, we're estimating the number to be about 15 basis point to 17 basis point, came in at 11 basis point. The treasury team did a great job in terms of managing the cost of fund for the current quarter.

As we look at the full year on account of majorly the re-pricing of old borrowing at higher rate, as they come for replacement, and our ability to not be able to incrementally pass on the cost of fund burden to customer because the pricing is almost at pre-COVID level. We expect about 10 basis point to 15 basis point compression for at least two quarters and then of course, depending on where the interest rates -- yes, two quarters each, which is Q2 and Q3, and depending on where the environment is for the next two quarter, we can provide further guidance on Q4.

Rajeev Jain: So 11 basis points

Sandeep Jain: 10 basis points to 15 basis points.

Rajeev Jain: 10 basis points to 15 basis points each in Q2 and Q3 and hopefully, things settles there on.

Sandeep Jain: Yes.

Gaurav Singhal: Got it. And then so I guess as a follow-up, so 1 lever to offset the impact of NIM in this quarter has been the operating leverage. So is this something that -- would it be fair to assume that this continues going for the rest of the year as well, going forward as well?

Sandeep Jain: I guess, Gaurav, you'll see it coming, throughout the year. It will be slow but steady is what I can tell you.

Rajeev Jain: Yes, I agree. Absolutely.

Moderator: Thank you. Next question is from the line of Kuntal Shah from Oaklane Capital. Please go ahead.

Kuntal Shah: My first question is, can you share with us some metrics which can give us some indicator of how you are tracking the digital journey of the users, DAU, MAU, North Star metrics, Abundance, whatever you can? And what exactly do you mean by social and rewards, which is there in the presentation? And second question would be, I went to GIFT City recently and there's no space and we have towers of ILFS and all. Anyway to monetize or any way to recover money, because we had a provision on ILFS account?

Rajeev Jain: Rewards, principally, when we look at -- the only way you could become a customer and by rewards is to go to times reward. It is not a reward platform. We landed a building rewards for closed loop architecture as a company, as a result of our digital transformation. As you can see, 18 million rewards were given just in Q1. If you see just in this panel, a year ago, we were issuing 5 million rewards. So scratch a card to the entire voucher infrastructure got created over 24 months.

And when we look at the external landscape, we realize that there's tremendous opportunity for customer to buy, become a member or a customer like payments infrastructure, to not be a customer but a rewards customer. He just paid for a reward membership, it's a membership program, allows you to set of discounts, allows you to a set of offers and so on and so forth.

That's a funnel being further opened to form a new customer gathering standpoint. So that's really our view on rewards. Mind you, I tell people that in these 3.84 million new customers, we still don't publish. Payment's customer who we bring onboard, who are even full KYC, lean and mean KYC, we still don't publish because we want, in Panel 10, we don't want that number to get Panel 10, Panel 11.

AUM per customer should not yet compromise. When we realize that, what value can we generate, that's when we call a customer a customer. Going back to the even earlier point to Piran that what do we -- who do we call as cross-sell franchise or a franchise. So rewards will be another final, Kuntal, that we will -- we are investing in. So if you don't want to be a lending customer, don't want to be a deposit customer, don't want to be a broking customer, become a rewards customer, and experience the digital asset engagement rates go up and we get a higher probability of you doing business with us, when you are ready sometime in the future, so that's one part.

Social is all about, if you use Instagram, you won't find any content there, it's all about videos and photos. Whereas, if you look at even an Amazon app or our app or any app, principally looks to be all content. Social, the fundamental difference from an engagement standpoint will be photos and videos, behind it will sit the same digital ecosystem.

When you want to buy a loan, it will show you View Shop. When you click on that View Shop, it will take you to our app, it will take you to a web and that's our app, is equal to web. So it's become a reasonably large channel, especially for large consumer-facing businesses, it is beginning to be an important driver.

So it's distinct from marketing. So it's a separate business unit that's been created in the company, distinct from marketing, which is building this out. And when you see it, you will get a much more clearer differentiation. Targeting the same product, but very differently, is really how I would -- GIFT City, I don't have an update, Kuntal, at this point in time. Atul has, sorry.

Atul Jain: So Kuntal, GIFT City, while we have the property, but the issue had been that because it was put under NCLT guidelines, since they treated the original equity holder, because that was a step down subsidiary, it was a second layer subsidiary, so in CoC, the older or the original -- the lender should have parent company also became members.

So we have a very small stake in a voting right, while having the exclusive property through NCLT order. So we are just a recipient and waiting for the bidding process of it. The bids were called by the administrator earlier, which are not resulted the bids to be in line with what the expectation was. Later on, they are going to do the second round of a bidding. But given our now percentage and with the accumulation, even if the successful bidding happens, our recovery would be very low.

Rajeev Jain: INR19 crores.

Atul Jain: Our recovery would be very low.

Rajeev Jain: And our expectation is INR18 crores, INR19 crores, so.

Atul Jain: In escrow there is INR50 crores- INR60 crores

Rajeev Jain: Exactly, the escrow itself has a – let's forget it. Okay, that's the update, Kuntal, on GIFT City.

Kuntal Shah: Just a follow-up question. Will the rewards of some subvention angle attached to it because there's a full traceability that you are stimulating the customer?

Rajeev Jain: Independent business units, insta EMI card runs as independent business units from B2B in a way. We originate customers, customers can convert, but will you see things come together in some form and -- in many forms and manner on the app from the consumer? The answer is yes. So it'll be propositions would differ and so on and so forth.

Kuntal Shah: Thanks for excellent disclosure and all the best.

Moderator: Thank you. Next question is from the line of Shweta Daptardar from Elara Capital. Please go ahead.

Shweta Daptardar: Congratulations on good set of numbers. I have couple of questions. One is, we have actually doubled or over more than doubled the gold loan branches quarter-on-quarter. Also, going by your Annual Report disclosures, the portfolio is 1.53% overall. So how do you perceive this business going forward? That's question number one.

Rajeev Jain: No, it's a fair question. We -- it's INR3,200 crores odd balance sheet at this point in time. Foresee ending balance sheet could be anywhere between INR5,000 crores to INR5,500 crores. We have doubled. We have doubled down on the business. We have cleared our head on it and it's doing quite well now. And if the first half goes well, we may further accelerate branch expansion. We now have 564 branches.

Sandeep Jain: 640, we'll end off.

Rajeev Jain: Yes, we'll end with July 31 with 640 odd branches, standalone gold loan branches, if first half goes well for the business and they're doing as well in terms of their financial metrics. We may take a view on accelerating that expansion.

Shweta Daptardar: Noted. Sir, second question is, are we okay disclosing captive versus non-captive portfolio on two-wheeler, three wheeler side or is it a little too early?

Rajeev Jain: Very early. I mean, okay. Just at a -- when we reached INR5,000 crores, just connecting this point to the gold loan, we would start to disclose gold loan also separately. Today, sitting in Rural B2C, because that's where the business was born, out of INR18,000 crores of asset, you see INR3,200 crores is that. Doesn't change the number at all. 98% is what gold loan is current. This is also 98%, so it does not change in any given manner.

In fact, change is one thing that, as we said, Rural B2C grew 21%. Actual Rural B2C PL grew only 19%, so just to clarify, just an added point. We think if INR5,000 crores is a rightful number, to us to create a separate quadrant in terms of portfolio quality disclosure. Otherwise, it's -- so that's the number you should look for. Whenever we separate it, you should know that assets have reached INR5,000 crores. Otherwise, they're clustered together, for convenience, other than anything else.

Shweta Daptardar: Understood. Sir, I'll squeeze in one last question. As per the Annual Report disclosure, the unsecured portfolio ECL coverage has gone to 75%. It used to be around 77% odd during COVID. Sir, could you provide some color around that?

Sandeep Jain: Shweta, I was just saying, the number has remained range bound only, right. It's 75%, 77%. So nothing has changed materially. The composition of balance sheet between of Stage 3 between, say, 3 months overdue to 4 months overdue to 5 months overdue require different levels of provisioning, it's because of that. Otherwise, nothing has changed. In fact, as I called out earlier as part of the opening remarks, we have strengthened the provisioning coverage ratio across businesses and that is costing us about INR50 odd crores, that has costed us about INR50 odd crores in the quarter one. We estimate the overall impact of the redevelopment cost that we have done in the last quarter to be about 6 basis points, 7 basis points on a full-year basis.

Shweta Daptardar: Noted. That is satisfactory.

Moderator: Next question is from the line of Prashant from SBI Mutual Fund.

Prashanth: Sir, since we're talking about customer leverage, so back in March 2020, you had given us the slides on leverage risk assessment of unsecured portfolios. It would be helpful if you could tell us how those graphs are looking like today. Or if you could disclose even future and net appreciation. And just as empirical evidence, how many customers would you have ended up projecting this quarter, both existing and new, simply because of this overleverage issue? Yes.

Rajeev Jain: In general, if I would take a funnel view, those customers to whom I gave B2B don't default it all. Of that, I land up offering a personal loan only to 60%. Eventually, I land up giving to 40%. That's the funnel view, all the way from B2B to conversion to a B2C. All pristine, right? Did not default, went through the filtration for B2B.

And mind you, that's really how our underwriting models are organized. One is an 8 month loan, product driven, it's end-use based versus longer tenure, non-end-use based, higher value and so on and so forth. Instalment do not change, mind you. Instalment, the models are organized only around 30%, 35%. That's the maximum that we allow from a B2B to a B2C from an underwriting model standpoint.

So that's really how the funnel moves. Loosening and tightening keeps happening based on the stance or the incoming data, it's a pure data dependent conversation, loosening and tightening happens by early warning systems, either by location, by type of -- in personal loan, there are various types and so on and so forth, Prashant. So what you see is one B2C. We see it as 18, 19 different segments. What you see as Rural B2C, we see 8, 9 of them.

That's really how we look at those portfolios that we cluster there in an Urban B2C and Rural B2C, B2B. So some may be tightening at a point in time, some maybe loosening at a point in time. On coming back to leverage analysis, that work is right now on full speed. We promise to share an update in October and start to publish it annually.

Prashanth: Sure. But I think we're all seeing reports where there are some sort of alerts on unsecured loans, right. I think what we're trying to find out is to what extent is it today and to what extent it can get, maybe at the system level, if not specialty?

Rajeev Jain: Yes. No, no, it's a fair question, but I'll tell you where. At a system level, we know. The question is at a nuanced level, at N is equal to 1. That, see, that whether should I give money to Rajeev, should I give money to Sandeep? Both are good, mind you. Both are right now pristine, they are good, but how is there -- that difficulty in such mass data is you to cut this into -- is the leverage building up, what is the tenure of leverage buildup, is buildup in the right products or wrong products and so on and so forth.

So that's the work that is currently on. And eventually, as an operating managers, we have to do it at N is equal 1. In those 44.37 million customers, which are the bottom 10%, 15%, that I am not comfortable doing business with for personal loan, let's say, for a moment, despite the fact that they're all good today at 7.80 and above, so that's the point I want to make. We'll share in October, positively.

Moderator: Next question is from the line of Saurabh from JPMorgan.

Saurabh: Sir, just two questions. One is just a follow-up from before. So the approval rates in your urban personal loans, will this be back to 2017, 2018 levels or I mean, how would have the credit filters changed here? So that's the first one. The second one is essentially on the attrition rate. So, what would be the attrition rate at your sales staff, or at the junior management level at Bajaj Finance, and how has it been trending?

Rajeev Jain: So, the approval rates would look closer to '19, '20. We had gone significantly, I think, till I would say October '22 because we are still suffering from pandemic experience since October '22, we started off slowly release. Today they would be back to '19, '20 for urban, they are much tighter than even '19, '20 for rural, at this point in time.

As I earlier said, you ask me this question again in December, my view may have changed. It could have softer then, that urban B2C may be much tighter rural maybe -- so it's all data dependent is the only point I want to assure you on a, not on a coincidental basis. Just one point I want to add, on a lagged basis, on a vintage basis is really where the effort is that 12 months vintage, where were they in 12 months vintage where are they by month is the important point.

Second point, we started to publish now the annualized attrition, which we gave you last year, this is that attrition is not about junior and middle and senior. I mean attrition is attrition. Voluntary, involuntary, all kinds of attrition, attrition is attrition. So the definition is very simple. Came in, or left, simple.

Are in the company, are out of the company. Reasons are, I hired the person, I can't say I've hired the person, why did I hear the person. So, the definition is very simple and consistent. All those who left the company are in the numerator, and those who are in the company are in the denominator.

We were very clear since last year, we have very little/nil attrition, middle management, we have very little or nil attrition. Most of the attrition is all junior, but junior are the people who are facing the customer, so fundamentally, that's really where we took the view. I think, significant work happened.

Let me make a point. People talk about compensation and engagement and so on and so forth. We came -- we became very clear that the entire effort is in process simplification, which takes more time for an employee to be at work. That's really where line by line we've worked with that 15 months, business by business, and that's how the number came down from 28% to 19% and first quarter is looking at 13.8% and the work continues. We are now taking this forward to extended staff.

Any employee, any outsourced staff, that's a metric also we are watching now, because he or she is the last person who is actually meeting our customer. It's not even my salespeople who are meeting the customer most of the time or debt management people. It's the last person who's meeting, that's an attrition numbers that we are now beginning to watch and take action on as well.

Moderator: Next question is from the line of Sameer Bhise from JM Financial.

Sameer Bhise: Just one quick question on BHFL. The fees and commission line shows a sizable decline Y-o-Y?

Sandeep Jain: So there is change in the cross-sell product what we were doing earlier last year, which was --

Rajeev Jain: This is on BHFL?

Sandeep Jain: BHFL.

Rajeev Jain: Yes. Okay, sorry.

Sandeep Jain: Had a fee company. We changed the product mix of cross-sell which is not having a higher upfront fee. The core business fee or the core business metric, it remains stable at the fee metrics. For then home loan typically, there is hardly an upfront fee. So, it's a mix. It's a change of the cross-sell product, which has resulted.

Rajeev Jain: Yes. The other piece, Sameer, is, I think last quarter, in last year Q1, we had a large assignment from BHFL. There was service income that got recognized on account of that. We don't have that significant quantum in the current quarter.

Sameer Bhise: Okay. Okay. And just quickly one last question from my side, the share of LRD and the DF portfolio is on the rise. Where do you think this stabilizes in the BHFL mix?

Sandeep Jain: So what happens is that in BHFL with the regulated HFC, we have to have a 60% assets as a home loan assets, home loan plus CRE RH residential finance assets. So, the rest of the product, rest of the percentage we define basis, our appetite as well as the opportunity to maximize return. Now between LAP and LRD, where we want our portfolio to be in the range of around 22% to 25% roughly is the computed answer there.

Currently in our assessment, LAP is not fully priced for risk in the market because the ongoing price or ongoing ROIs for LAP is in our assessment, not fully factoring in the risk there. That is where you see the LAP growth being comparatively lower and the LRD growth comparatively higher because we prefer LRD overlap, but between mix of LRD and LAP, you will see 22% to 25% portfolio mix on a steady state basis.

Rajeev Jain: 60% home loan, 23% -- 22% to 25% LAP cum LRD. By design, we have stated many times at between 13% to 12%, 14% to 12%, 13%, 15%, maximum 15% would be developer finance.

Sandeep Jain: Yes, that's the maximum.

Rajeev Jain: Rural 4%, 5% -- 3%, 5%. It goes into. That's really how the 4 blocks are expected to be remain in the inbounding.

Sandeep Jain: Yes. There was one question, from Piran on repo-linked borrowing. My President has shared the data with me. 25% of our bank borrowings are repo-linked, about 30% is MCLR-linked, and the balance barring about 55% or so are linked to TBL and extra -- TBLs, external benchmark rates and G-Sec-linked. That's a breakup of borrowings that we have from banks.

Sameer Bhise: And total bank, console basis, total bank contribution?

Sandeep Jain: Overall basis, on a console basis, we have INR74,000 crores of borrowing from banks, of which INR23,000 crores is repo-linked.

Rajeev Jain: Is somebody is asking something?

Moderator: Sameer, do you have any follow-up question?

Sameer Bhise: No, that's all from my side. All the best.

Moderator: Ladies and gentlemen, we'll take the last question from the line of Shubhranshu Mishra from PhillipCapital.

Shubhranshu Mishra: First one is on the attrition. What is the secret pill behind very low senior management attrition? Till date we have only seen Ashish Sapra going out and Devang Mody going out and again coming back. So, what is the secret sauce behind the senior management attrition, especially when we have such a large player Jio willing to hire from anywhere else, and we are seeing so much of attrition across levels and banks. That's the first. Second is on the collection infrastructure, if you can spell out how many people we have in collections on roll-off soon, and how they are split business wise.

Rajeev Jain: No, I think we all have a common goal or a purpose. We do want to create legacy in financial services. That's really what our trip is, and that doesn't mean it's insular. I mean, Anup is here, he's with the company only 6.5 years, but I think all those will end up sharing that whole land up just sticking together, we think there is tremendous opportunity to create a long-term sustainable business which is seen as the legacy 10 years down the line is what keeps the management team together, and I think and we don't intend for that to change because India has tremendous opportunity, financial services tremendous opportunity.

We are only 1.7% of despite being a INR2.7 lakh crores. We're still only 170 basis points of total credit in India. So, there is tremendous opportunity. We'd just have to keep at it. The only difficult part with us is we're a hard-working company, but only those people who like to work hard anyways they've gone. So that's the other side.

Legacies are not built without working hard. So, they all go together. It's the only point I would make and we are privileged that we have a management team of this quality and which has stayed on for so long and I intend to give it that way, is the last point I would make. You had a second question, did you?

Shubhranshu Mishra: Yes, if you can spell out the collection infrastructure, how many people will deploy on-roll, off-roll, and business wise, if you can spell that?

Rajeev Jain: Out of 43,000 people, debt management is 12,000 --

Sandeep Jain: 14,000, 15,000.

Rajeev Jain: 13,000 -- between 13,000 and 14,000. They manage agencies. Nobody collects directly. It's all managing agency infrastructure.

Shubhranshu Mishra: How many agencies do we have?

Rajeev Jain: It'll be in excess of 47,000 agencies that we would manage across 3,000 agents in cities and towns.

Shubhranshu Mishra: And how is this split business wise?

Rajeev Jain: The largest component because it's all about average receipt, right. It's all about -- if you take a capacity planning view, which is really what a debt management infrastructure is all about, that how many receipts can you cut, and that differs by business. So, largest top of the funnel would be B2B, followed by B2C. Commercial does not have any debt management fee. So from top of the pie to the bottom of pie. So, these are highly reasonably evolved capacity planning models, on the back of everything else they eventually go by deep capacity planning models, which are constantly iterated depending on the environment.

Moderator: I now hand the conference over to Mr. Anuj Singla for closing comments.

Anuj Singla: Yes, thank you, Nirav. Rajeev, sir, any closing comments before we conclude?

Rajeev Jain: Thank you. We will keep going. Thank you. Thank you so much.

Moderator: Thank you very much.

Anuj Singla: Thank you. Thank you, sir.

Sandeep Jain: Thank you.

Anuj Singla: Over to you, Neerav.

Moderator: Thank you. We conclude this conference. Thank you for joining us. And you may now disconnect your lines. Thank you.