

Y 2012 Earnings Call - Bajaj Finance

Dt-16 May'12

Operator

Ladies and gentlemen, good day and welcome to the Bajaj Finance Q4 FY'12 Results Conference Call hosted by JM Financial Institutional Securities Private Limited. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. At this time, I now hand over the conference to Mr. Karan Uberoi from JM Financial. Thank you and over to you sir.

Karan Uberoi

Thank you, Terrence. Good evening, everybody, and welcome to Bajaj Finance's earnings call to discuss the fourth quarter numbers. To discuss the results, we have on the call the Mr. Rajeev Jain who is the CEO and Mr. Pankaj Thadani, who is the CFO. May I request Mr. Rajeev Jain to take us through the financial highlights, subsequent to which we can open the floor for a question-and-answer session. Over to you, sir.

Rajeev Jain, Chief Executive Officer

Yeah, Thank you, Karan. Good afternoon to all of you. Given that it's fourth quarter and we have the full fiscal behind us. I'll very quickly cover the full year highlights and then I'll go over to the quarter and what led to the financial results We acquired as a company in FY'12, 22.2 lakh customers. Our deployments went up, our disbursements went up to close to 16,000 crores which is 15,800 crores. Total income crossed the 2,000 crores threshold milestone to 2,172 crores, it is a growth of 54%. Profit-after-tax went up by 64% to 406 cores. Loan losses and provisions came out very strong, they were down 25% to 154 crores. This also included a one time 20 crore accelerated provisioning that we took in consumer durable business and the two wheeler financing business to further improve our overall provisioning frame work.

Now provisioning coverage ratio as a result of the 14.6 crores that we took in the fourth quarter increased to 89% virtually close to 90% against 79%. Net NPA was at 12 basis points probably lowest in the industry at this point in time non-banks, banks against 80 basis points in FY11.

The gross NPA while we don't quote that has also just about come to 1.16%. Capital adequacy continue to remain strong at 18% ending March 2012. The Board has recommended in the Board meeting that concluded today a dividend of 120% which is the highest that we paid in last five years. The board is also subject to shareholders' approval, approved raising additional capital of 750 crores by way of rights issue or a mix of rights and QIP in FY13 depending on external market conditions to meet next three year capital needs. So that's on full year performance.

Very quickly I will just turn over to what our orientation is and what drove this growth. It's been, so I'm jumping over to the next quarter. Overall it's an excellent quarter aided by strong volume momentum and very strong credit performance across product lines. Consumer business which is essentially contributed by four lines of businesses, which is consumer durable business, the two-wheeler financing business, the personal loan cross sell business and our salaried personal loan business continue to outperform due to stable demand, environment and a benign comparative environment.

Out of 22.2 lakh customers we acquired 20 lakh customers in this space -- sorry, 22 lakh customers in this space. So, clearly the anti various to the business are very, very high and have gone up higher as a result of our such strong, such large wallet sizing in this space. SME businesses continue to grow in a healthy manner due to a sharp focus on customer segmentation. We essentially continue to deal with companies with average annual turnovers of 25 crores to 30 crores. So, all out of these three businesses the mortgage business and the business loans, business have continue to grow well. Loans against security, we have actually grown much slower because of volatile external environment, volatile equities market.

We're clearly now among the top three, four mortgage originators in the market place and the loan against property side of the business. In the commercial business, while you see the year-on-year growth being very high, the base being very small, however it's important that I must mention that our overall orientation out of the three lines the businesses which is construction equipment, infrastructure and vendor financing. We are in a reasonably cautious mode in the construction equipment business and the infrastructure financing business.

The construction equipment business on a year-on-year basis, the construction equipment and finance business has grown just about in double-digits. Demonstrating that despite the fact that overall the company growth was for the quarter was 69%, this business grew only 14%, 15% because of our cautious view.

Infrastructure business, we added only 145 crores of AR, the growth numbers are not relevant because the book itself is only 650 crores

at this point in time. Vendor financing business continued to grow well, it grew well again. We have reasonably high confidence in the business. Bajaj Auto continues to do well and we deal with essentially the top 50 vendors of Bajaj Auto. So this business has grown well in the last quarter, and we added 175 crores of new receivables in this business. So that's the -- just one last point.

Overall interest cost continues to remain significantly lower among NBFC peers due to our conservative ALM.

Having said that, the cost of fund is constantly inching up as our scale grows. But the rate of growth is now in the last two quarters is much lower than what it was versus first half of the year and the second half of the year. We received new sanctions of over 1,000 crores from new banking relationships this does not include existing banking relationships from which we received closed to 1,000 crores. A new business initiative that we launch, which is lifestyle financing to expand the category of our consumer durable financing business we launch 0% lifestyle financing business. Essentially, the intent is to grow the wallet size and offer more products at 0% to our customer base, given the fact that we're acquiring 22 lakh new customers in a given year.

So we launched 0% for furniture, home furnishings, fitness equipment and luxury watches. We launched this business on 1st of April and we are reasonably excited about growing this business. And we have started 100 retailers in the top 14 cities at this point in time. Based on the success of the business, we will further expand the scope of this business in the current fiscal.

That's really what I have to state for last quarter and for full year. And I am open to any questions to the Q&A.

Questions And Answers

Operator

Thank you so much, sir. We will now begin with the question-and-answer session. [Operator Instructions]. We have the first question from the line of Sameer Kulkarni from Vantage Securities. Please go ahead.

Sameer Kulkarni

Sir, congratulation on the good set of numbers.

Rajeev Jain, Chief Executive Officer

Thanks, Sameer, is it?

Sameer Kulkarni

Yes, sir.

Rajeev Jain, Chief Executive Officer

Yeah, Sameer.

Sameer Kulkarni

Sir, looking at your ALM, which has grown at 10% from 11,900 crore to 13,100 crore in the fourth quarter. But at the same time the NII has degrown from 396 crore to 389 crore. This has led into the ROA coming down from 1.2% to 0.9% and REO from 7.5% to 5.7%. So we'd like to know the results about the same and what will be your outlook on these points.

Rajeev Jain, Chief Executive Officer

So two things, see you've to look at our business has quarter-on-quarter rather than sequential in the first quarter of the year and the third quarter of the year where the consumer durable business peaks. So there is AC season which kicks in April May-June quarter and the October, November, December is the festival season kicks in for entire consumer

Sameer Kulkarni

Okay. Okay.

Rajeev Jain, Chief Executive Officer

There is no dilution however in margins at this point in time, so that's point one. Having said that you will see some level of margin compression that will start to come in as our overall interest cost starts to go up, and our mix changes as the balance sheet mix changes from consumer coming down to tilting towards SME and commercial, you will see the overall readjustment of the pie and as a result you may see NII and margin coming down.

Sameer Kulkarni

Okay. Next question on the expectation of disbursement growth and book size growth for the next year?

Rajeev Jain, Chief Executive Officer

So I mean look the environment continues to be reasonably uncertain. Our view would be we would like to grow at least 25% on assets and 25% on net income. So that's really what our view would be from a growth standpoint for FY13. It will be more appropriate to do first half and second half. I would say we are reasonably confident of the first half and I think as the environment unravels, we can take a call in the second half.

Sameer Kulkarni

Okay. And from the new lines of business like the luxuries lifestyle financing what kind of book or disbursement growth we are expecting sir?

Rajeev Jain, Chief Executive Officer

We would like to do 250 crores of disbursements from this space in the current year and take it forward from there on.

Sameer Kulkarni

Okay. Thank you very much, sir. Thank you.

Operator

Thank you. [Operator Instructions]. We have next question on the line of Nilanjan Karfa from Brics Securities. Please go ahead. Hi, Rajeev, hi Pankaj.

Pankaj Thadani, Chief Financial Officer

Hi.

Nilanjan Karfa

Two quick questions. The first one is when I was looking at delinquency chart that you provide, looks like we have seen some uptick mainly on the CD and the personal loan portfolio.

Rajeev Jain, Chief Executive Officer

That's correct.

Nilanjan Karfa

And the second coupled with that out of the disbursal, the total consumer share of consumer has dropped to I think close to 40%, this is probably the lowest in the last several quarters I would say.

Pankaj Thadani, Chief Financial Officer

38%.

Nilanjan Karfa

Right, blending both of these together is something we want to share in terms of are you seeing some incremental incremental pressure on these assets qualities?

Pankaj Thadani, Chief Financial Officer

So two things, at portfolio level the answer is no, at a business level marginally yes, in the Cd business I would say, having said that the movement is 20 basis points, so if you look at the 98.15% has dropped to 97.8%, 35 basis points movement in between quarter three and quarter four. We are taking corrective action and its, let me just give you texture that from a internal modeling standpoint this number can go down to 95%, and our view is that we'd like to hold this number between 97.5% to 98.25% which is where we have been ranged for the last two years. I think you'll see us back at around 98% in quarter one. So we've done minor tweakings in some markets which are moving out of the range of our comfort levels of delinquency and we have already reacted, you will see this back to 98%. Now personal loan portfolio, cross sale portfolio look this number from a modeling standpoint should be 86%, 87%, Okay? This 95.4% won't hold, I just want to make sure that there is, it's an unsecured business. While it's cross sale, as you can see in June 2010 in the same chart, it is 90.7.

So it still made money at 85% also. So, I would say this number will deteriorate from here and probably go and settle at around not that its going to happen, and you may not see it in quarter one as well or in the first two quarters but you will see this between holding between 92.5% to 95%.

Okay, okay.

Rajeev Jain, Chief Executive Officer

But at a portfolio level, given the contribution of both these businesses is around 2,000 crores, you may not see a significant change. The provisioning in both these business is amongst the tightest that we charge of 60% at 90 days pass due, and 100% at 150 days pass due. You will see a P&L impact, but you will not see a provisioning coverage impact or a net NPL impact.

Nilanjan Karfa

Okay.

Rajeev Jain, Chief Executive Officer

So that is historically been the reason why we've been going hammer and tongs on the overall provisioning coverage and the overall provisioning policy framework. We don't want to be in the business of lending today and correcting tomorrow.

Nilanjan Karfa

Okay, okay. Fair enough, fair point. The second is on the capital, you already converted about 4.7 million warrants and you want to raise another 750 crore this year if market helps. So, in terms of your two, three years projection, is it more on the loan growth or are we looking at possibility of a banking license because that we need some.

Rajeev Jain, Chief Executive Officer

I mean, so one we don't have a view when it will come, so we're not raising capital for the banks, we are raising capital for our growth fundamentally. So, our view is that with the internal accruals that we we'll continue to generate and given our long range plans of the company, we will require from a next three year standpoint around 750 crores of additional capital.

Nilanjan Karfa

Okay.

Rajeev Jain, Chief Executive Officer

So, its a pretty straight forward business view rather than any straight forward operating business view rather than any strategic linkages to capital range.

Nilanjan Karfa Rajeev Jain, Chief Executive Officer

I mean last quarter was consumable 1,700 crores. Now this number would normally as I said quarter one and quarter three will see this number go up, and goes down in quarter two and quarter four. So this number should grow at least 20% if not 25%, actually 25% is right number. It will go 25% on year-on-year basis.

Nilanjan Karfa

Okay. Because the reason I was asking because this is the chunk of portfolio which gives you higher margins. Per say this runs of pretty fast.

Rajeev Jain, Chief Executive Officer

That's correct.

Nilanjan Karfa

So, I was assuming that you would want to grow it at a certain level, so that you don't loose out on the either on the yield and advances or margins?

Rajeev Jain, Chief Executive Officer

I just want to add that I mean now for the last seven, eight quarters, you're continuing to hold at around 4% plus ROA which is also not what we say are targeted. So if you see quarter one, two, three, four, you virtually delivered 1.1%.

Nilanjan Karfa

Right.

Rajeev Jain, Chief Executive Officer

Okay. So I mean that which will essentially mean, it's a 4% ROA kind of business. That's not what our target is. And as the mix changes, not that we are working in that direction, but as our mix changes this number have to come down. We also don't say we'll deliver a 24% ROE, we'll deliver 19 to 20% ROE and that's where we are, that's our direction.

Nilanjan Karfa

Right.

Rajeev Jain, Chief Executive Officer

You know because at the end of the day while consumer is a great business, it's also higher beta business. Correct.

Rajeev Jain, Chief Executive Officer

So, we have to make sure that we optimize the risk and reward equation at a entity level.

Nilanjan Karfa

Sure. Thank you very much Rajeev

Operator

Thank you. We've the next question from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Rajeev Jain, Chief Executive Officer

Yes Nischint.

Nischint Chawathe

Yeah hi. Just want to get a sense from you looking at the trends, I mean this is very much related question, looking at the trends even in the country business I understand that fourth quarter is kind of little subdued quarter for the business, but looking at the delinquency levels, can you say that somewhere this business is possibly peaking out?

Rajeev Jain, Chief Executive Officer

No no. Not at all, the answer is no. So the consumer business as somebody asked first Sameer asked from Vantage that one we started to also to expand, so our view last year our growth was, our market share was 9% of the consumer electronics industry. We think the number this year would be 11%, it could be if we remain on course it could be 11% to 12%, between 11% and 12%. Two we have launched lifestyle financing that should support. Three, our salary personal loans that we started 18 months ago have started to be reasonable size now.

When you add up all these personal loan crosssell is a one year lag defect framework given the fact that last year acquisitions delivered this year, because on an average the customer has to if it's six months then we make an offer its seventh month. So that comes in a lag effect as well. So the answer is no.

Nischint Chawathe

The cross sell would be, I mean what proportion of business will be cross sell at this point of time?

Rajeev Jain, Chief Executive Officer

Personal loan cross sell book is around 800 crores at this point in time.

Okay, okay. Now okay let me just put the same point a little differently, I mean what I was kind of try to say is not from Bajaj Finance point of view, but from a industry point of view do you see the demand kind of topping of and of course your growth is going to be more a function of the fact that there is no competition that you can cross sale and grow at a faster pace in the industry. But do you think that the industry growth rate that we are seeing on a Y-o-Y basis is possibly topping of?

Rajeev Jain, Chief Executive Officer

Then I would invert the pyramid, in the first place the demand is already dropped down of on the commercial business, because which has three businesses which is construction equipment the overall new industry volumes are much lower of JCB and the Telecon, so that's dropped down, - have dropped down. Vendor financing if the growth is going to be just about in double-digits by Bajaj Auto at 12%. 13%, 14% which they are talking about 13%, 14%, then they will be less capital there will be less expansion demand. So, first that drops off, then you will see a drop off in SME and the last you will see is a drop off is in the consumer. So, its inverted pyramid rather than other way round. And so consumer is the only bright spot in the economy at this point in time, 70% of our consumer business is largely to salaried customers, we are not seeing any mass layoffs or firing across sectors barring if you...

Nischint Chawathe

But do you see the pace of growth coming off, I'm talking from the industry point of view, do you see the...

Rajeev Jain, Chief Executive Officer

No, no there is no question about it. So if you grown last year 50% our view is that we will go 25% only. So reasonably clear one the base effect is high that is point one, and point two we sit in the same market as the broader macro economy. We can't be, we are not unexpected by it, whether on volume performance or in credit performance. So I won't even argue, I would just say that it helps us that our size, relative size is small. It helps us that we are very focused on segments that we deal with, we are very focused on the businesses that we do.

So we have a higher chance of delivering a out performance than anything else, that's all.

Nischint Chawathe

Okay. And just one slightly theoretical question is, any thought process about changing the accounting policy for consumer, basically deferring the consumer income, in terms of consumer durables?

Rajeev Jain, Chief Executive Officer

Look we've no problem doing this, we also done maths that this amount is something like 30 crores on a one time basis, 30 crores, 35 crores on a one time basis. Now essentially if we do this we are waiting for IFRS to come in so that we we've no problem doing this. And we don't see there is a material number to our overall net income as a company anymore, we are only waiting that let there be alignment to how the industry treating it rather than just us treating it and it will get lost in one quarter earnings call and we will all know know the difference. Like people today wouldn't know the difference that we are at virtually at 90% provisioning average. When the Usha Thorat Committee Report the guidelines get converted into notification, I will have to take less than a 20 crore number. There are some of the non-banks will have to take three digit number.

That's right, that's right.

Rajeev Jain, Chief Executive Officer

For a size of the 14,000 crore balance sheet let's say I may presently start at 14,000, 15,000 crore balance sheet and will take less than 20 crore number. So we are just waiting for IFRS to comment, we have no other view on it. It will just given us a onetime transitional reserve, framework and -.

Nischint Chawathe

Okay.

Rajeev Jain, Chief Executive Officer

But I want to reiterate that it's a number which is not a material number to the overall net income of the company anymore now.

Nischint Chawathe

Sure. Okay, thank you very much and all the best.

Operator

Thank you. We have the next question from the line of Vinay Shah from Reliance Mutual Fund. Please go ahead.

Vinay Shah

Good evening, sir.

Rajeev Jain, Chief Executive Officer

Good evening.

Vinay Shah

Sir, if you can give the AUM break up product wise it will be very helpful?

Rajeev Jain, Chief Executive Officer

AUM, look so I said this last time and I would say it again that we already grow...

Vinay Shah Rajeev Jain, Chief Executive Officer

No, because I mean we already provide as I said significant amount of information to in our investor engagement. In annual report, anyway you will see it. So, we have, we will be sharing the deployments and the AUM. So, we have no problem in sharing it at the end of the year which is now. But on a go forward basis, we would remain restricted to consumer SME and commercial. If just drop a mail to Pankaj, he can send you AUM break up.

Vinay Shah

Surely sir.

Rajeev Jain, Chief Executive Officer

But I do rehydrate that our view is that we will now share information on consumer SME and commercial but given it's fourth quarter and is going already to all the shareholder, we will send this to you, Pankaj will send it you.

Vinay Shah

That will be great. Sir, what was the infrastructure loanbook outstanding as of March -.

Rajeev Jain, Chief Executive Officer

730 crores

Vinay Shah

Okay. So incremental, how many projects we have done for March quarter?

Rajeev Jain, Chief Executive Officer

So, we have gone in a reasonably and the incremental book was 145 crores in fourth quarter. 145 crores is a new addition to the book. In the construction equipment business, and the infrastructure business, we've virtually gone into a very, very cautious mode, you will see it on a quarter-on-quarter basis grow now and just about double-digit.

Infra is a very new business, so you may, percentages may not matter. But in construction equipment, at least for the next two to three quarters given the data cycle issues in that sectors and the leverage issues in the sector, we are very cautious. Despite the fact the earlier question that was asked, we are not seeing any kind of stress in the current bucket at this point in time in the construction equipment business which is not true of most of our competitors is what I would say is also something that I would say. But given that the sector itself is going through difficult time, we've chosen to take cautious view on both construction equipment and on infrastructure business. You may see we are in 45 days into the quarter, you may see no disbursements in the quarter or very marginal disbursements in the quarter.

Vinay Shah

That view in the construction equipment is taken from a yield perspective or credit quality perspective?

Rajeev Jain, Chief Executive Officer

Both. So, look its largely given, our focus is largely on strategic contractors of 25 crores and above, and 25 crores to 2,000 crores they are sitting in the same ecosystem in which the infrastructure projects are also sitting. So, its both, but I would say yield in a diversified business model I can still manage and we are committed at a strategic level to both these businesses. At this point in time, however the

view is on the credit performance side.

Vinay Shah

Okay. And what would be the duration of this incremental growth in the Infra book?

Rajeev Jain, Chief Executive Officer

Yeah, one second. So all of it is actually eight to 10 year book only.

Vinay Shah

So all 733 crores is....

Rajeev Jain, Chief Executive Officer

No, no not 733, 145 crores of incremental disbursal is eight to 10 years book.

Pankaj Thadani, Chief Financial Officer

About 50 crores would be short tenure, that would be by March '13.

Vinay Shah

Okay, okay. So, rest 500 crores would be...

Pankaj Thadani, Chief Financial Officer

Yeah.

Rajeev Jain, Chief Executive Officer

That's correct.

Vinay Shah

No, no. 145 is eight to 10 year, 50 crores is March '13 maturing.

No, 733 minus 50 essentially Pankaj is saying 680 crores would be long-term book.

Vinay Shah

Okay, okay. Thank you very much sir.

Rajeev Jain, Chief Executive Officer

Thank you.

Operator

Thank you. We have the next question from the line of Rahul Bhangadia from Lucky Securities. Please go ahead.

Rahul Bhangadia

Thank you for taking my question sir. Sir, if you could just give us a sense of what is the difference in the yields between a consumer finance book and the commercial book?

Rajeev Jain, Chief Executive Officer

Consumer finance book and commercial book, then you tell me to do only one business. So it's not about yields and yields eventually must yield ROA and ROE.

Rahul Bhangadia

Right.

Rajeev Jain, Chief Executive Officer

So the consumer business is a higher beta business.

Rahul Bhangadia

Right.

Rajeev Jain, Chief Executive Officer

Whereas SME and the commercial businesses are lower beta business. And as a result the returns are lower. So, we need to keep optimizing between our maximizers, which is our consumer business and our scale builders which are SME businesses and our commercial businesses. So, yields are reasonably significantly higher in the consumer business, but so are the risk in the consumer business.

Right.

Rajeev Jain, Chief Executive Officer

And vice-versa. So OpEx is also much higher in the consumer business. So there are virtually three companies sitting in this three businesses, with very different characteristic and orientation. So I would really compare all three of them, I would look at them as each rather than comparing it.

Rahul Bhangadia

Yeah. The question was basically coming from the angle that given that you want to grow the commercial and it is taking up the space of consumer finance as a percentage of the portfolio. And your yields are definitely going down. So I just want to get a sense as to how much should we put in as to how much the yield will go down?

Rajeev Jain, Chief Executive Officer

So you should target, as we would continue to optimize to deliver 3% ROA as a company

Rahul Bhangadia

As a company, that is what your target is?

Rajeev Jain, Chief Executive Officer

So, I mean you know and we'll calibrate and moderate our business model to deliver a 3% ROA and a 6.5 time gearing which is at 20%, 21%.

Rahul Bhangadia

Okay. That was one, second was how much do you expect your interest cost to go up? This year you mentioned that, but I am just, do you expect it to go up and if yes by how much?

Rajeev Jain, Chief Executive Officer

No, I mean not from exist, -- last two quarters where the numbers are, you would largely see it inline with that. It may go up by another 25 to 30 basis points. But, and now see at this point in time its complete flux in both in money markets. There is no clarity on whether banks are dropping, banks now think FAA+ credit is poorer than retail credit. Suddenly I can see car loans and home loans at base rate plus five basis points and 10 basis points. So, that is what they do lend to wholesale clients like us and that is what we're are now lending to me individually.

Rahul Bhangadia

Okay.

I don't understand the orientation but that's fine. But there is reasonable flux in money markets and in banking markets at this point in time on the debt market or the money markets are actually, they were, they are at 50-60 basis points higher than where they were pre-reported cut.

Rahul Bhangadia

Okay.

Rajeev Jain, Chief Executive Officer

Okay. So, there is complete flux at this point in time. So I would not hazard against to forecast for a full year at this point in time and where interest cost would go.

Rahul Bhangadia

Okay. And my final question be, as you said you are looking out for a 3% ROA with a leverage of around 6.5 at peak. Do we expect to reach that leverage this year given that you plan to raise money or is it going to happen over a period of two or three years?

Rajeev Jain, Chief Executive Officer

Yes, so I think by fourth quarter, we will reach there.

Rahul Bhangadia

Even if you - you are assuming that you will be able to raise the additional 750 crores that you're planning to do.

Rajeev Jain, Chief Executive Officer

No. So, if we were not to, no -- so this not include raising. I think we will be reasonably comfortable for the current fiscal.

Rahul Bhangadia

Okay.

Rajeev Jain, Chief Executive Officer

And we will require the 750 crores from a next three years standpoint. Current fiscal including our internal accruals plus the balance 80 crores has to come from promoters if the orders of 396 crores that they subscribe to, plus some level of Tier 2 will raise, we have not raised any Tier 2 in the last one year.

Rahul Bhangadia Rajeev Jain, Chief Executive Officer

Between all these three pieces will be reasonably comfortable with the current year.

Rahul Bhangadia

Okay.

Rajeev Jain, Chief Executive Officer

For the next fiscal that we require. The next fiscal and the three years from there on that we'll require capital.

Rahul Bhangadia

Okay, okay. So on the present net worth and the -- profits that you will get you will be able to leverage fully by the end of this year?

Rajeev Jain, Chief Executive Officer

That's correct.

Rahul Bhangadia

Okay, okay. Thank you so much sir.

Operator

Thank you. We have the next question from the line of Subramaniam PS from Sundaram Mutual Funds. Please go ahead.

Subramaniam PS

Sir good evening and congrats on a very good set of numbers sir.

Rajeev Jain, Chief Executive Officer

Thank you Subramaniam.

Subramaniam PS

Question was on the actually two questions, one was wanted to understand how has the traction been on the card business tie up that we've entered into?

So yeah, go ahead, second question?

Subramaniam PS

I think I'll ask my questions...

Rajeev Jain, Chief Executive Officer

So credit card we are now doing around 3,000 cards per month already. It's fourth month of having launched the business and our view is full year we would do around 100,000 cards this year. But both partners are taking it as a strategic opportunity. Clearly Standard Chartered who is our partner in this committing significant amount of commitment in terms of resourcing and strategic intend behind it. We are very committed to the business so and our view is that in three years this business should be at least 250 to 400,000 new cards that we should be able to do as a business. So, this year we would acquire 100,000 cards and we will take it forward from there.

Having said that important point I would want to make is it will not be a significant contributor to net income line. So if we would have to grow 25% then 400 crores 25% means 475 crores. This would contribute 10 crores to 12 crores. But it's a important strategic tool for us as a company from a long-term fee income model standpoint and from a overall physiological size of the company's standpoint.

Subramaniam PS

Sure, sir. Second question was on your tie up with Central Bank for the securitization kind of a transaction.

Rajeev Jain, Chief Executive Officer

Right.

Subramaniam PS

Wanted to understand what is the current status in terms of how do you provide capital for this transaction and would this be impacted by the new securitization norms?

Rajeev Jain, Chief Executive Officer

So two things, I mean we had a limit with them of 1,000 crores, we gave them 1,000 crores worth of assets, at this point of time the outstanding on that is around 865 crores. We have put it in applications on other 17,00 crores then the overall portfolio is performing exceedingly well for what we pass through to them. Given the new guidelines that have come in, there will be no impact except for the fact that we were passing through at the end of the month. So we are keeping 70% of the asset which is what the guide - a large part, a part has to be kept with us which we are doing. We will have to provide seasoning to it that is only change that will actually happen, so we are taking it up with them given that we are going concern business, we have no issues in having to from a seasoning standpoint and then and anyway we would like to maintain, we would like to keep 60% to 70% of the asset with us in the audit.

Subramaniam PS Rajeev Jain, Chief Executive Officer

No, answer is no.

Subramaniam PS

Sure also one more data point, just wanted to know what was the outstanding borrowing number

Rajeev Jain, Chief Executive Officer

10,226 crores.

Subramaniam PS

Okay. Sure thanks sir, that's it from my side. All the best.

Operator

Thank you. [Operator Instructions] We've the next question on the line of Ritesh Poladia from RBS. Please go ahead.

Ritesh Poladia

Good evening sir and thank you sir for giving me an opportunity. You said that you've about 9 odd percent market share in consumer electronics. Sir I just wanted to know what percentage of consumer electronic industry would be under finance side?

Rajeev Jain, Chief Executive Officer

We are the only lender, so we are the industry.

Ritesh Poladia

Okay.

Rajeev Jain, Chief Executive Officer

But let me just give you textures, the 12% is around 40% would be -- between 35% and 40% would be credit card and the balance 50% would be cash.

Ritesh Poladia Rajeev Jain, Chief Executive Officer

Our view is, I mean this number should be, our five year we would be that can we have 25% market share of the consumer electronics sold in the country. Now that's a five year view and we'll continue to work closer to that path as we build the business. This number was four years ago, that we were a 3%, then we are virtually closed to 10%. I would expect as I said earlier this number to go to 11%, 12% this year.

Ritesh Poladia

And regarding competition, anyone would be planning to come under this business?

Rajeev Jain, Chief Executive Officer

Not so far. I mean we know in some parts like Shriram City Union was doing seasonally in South, Future Capital is doing seasonally in North.

Ritesh Poladia

Okay. That's all from my side. Thank you, sir.

Operator

We have the next question from the line of Aditya Singhania from Enam Holdings. Please go ahead.

Aditya Singhania

Thanks. Just wanted to clarify, did you mention that your mix on the portfolio will change a bit towards the commercial business and away from the consumer business?

Rajeev Jain, Chief Executive Officer

The answer is yes. I did mention. So, given the short tenure book.

Aditya Singhania

Okay.

Rajeev Jain, Chief Executive Officer

And also the consumer business today is 38%. SME is 44 and commercial is 18. You may see this numbers not because consumer will degrow, but because of a short tenure nature you will see it, you could see the mix change.

No. I understand. But I thought you were mentioning that the infra and construction equipment anyway you see a challenging sort of business environment and you are not too keen to grow it.

Rajeev Jain, Chief Executive Officer

That's correct.

Aditya Singhania

And the vendor finance presumably will slow a little bit because of your comments on Bajaj Auto's business.

Rajeev Jain, Chief Executive Officer

Right

Aditya Singhania

So I was just curious with the 25% growth in disbursement in the consumer business. How the pie would shift away. I understand the short tenure effect.

Rajeev Jain, Chief Executive Officer

Yeah. So if you see last five quarters, last four quarter, if you take last year, we started from 42, we've gone to 38. Okay, the consumer business.

Aditya Singhania

Right.

Rajeev Jain, Chief Executive Officer

SME was 43, it's been at 43 only.

Aditya Singhania

Sure.

Rajeev Jain, Chief Executive Officer

Okay. And commercial was 14 its gone to 18. You may see us go back probably to around 40, you may see SME grow from 43 to probably 45, 46.

Aditya Singhania Rajeev Jain, Chief Executive Officer

And you may see commercial around between 15% and 18%. So you may see a 3% or 4% movement depending on the given year, but not too significant a change.

Aditya Singhania

Right, right okay. And second question was did you mention the cost of borrowings sorry if I missed it.

Rajeev Jain, Chief Executive Officer

No, I didn't mentioned the cost borrowings, but what I said is that you won't see significant uptick from here. Whatever is our interest cost in quarter three and quarter four from our overall forecast standpoint, and in the next two quarters, the number may not move to significantly adjusted for the incremental borrowing. Therefore the number may not move to significantly is what I said.

Aditya Singhania

But incrementally we've seen banks cut base rates, so shouldn't you be getting some benefit out of that?

Rajeev Jain, Chief Executive Officer

Its in the press only, at least not in my P&L so far.

Aditya Singhania

Sorry, one more question if I may, if you look at the charts you've provided on the delinquency segment wise, as there was a previous question, there is a slight uptick in the consumer durable business.

Rajeev Jain, Chief Executive Officer

That's correct.

Aditya Singhania

That doesn't seem to have happened in the two-wheeler business. So why this sort of diversion trends in the two businesses?

Rajeev Jain, Chief Executive Officer

We deal it very different set of customers. As I said, there we deal with the rural customer, cash customer. So we've never compared two of them together. These are completely one, there are two different set of clients.
Okay.

Rajeev Jain, Chief Executive Officer

Okay. This is a rural portfolio, non-prime, mass market framework, whereas consumer durable is affluent, 50% of the business comes top eight, 10 cities so on and so forth. So, there is significantly good movement in the two-wheeler business. Actually the number, if you see has moved from 83% two years ago to 89%.

Aditya Singhania

Right.

Rajeev Jain, Chief Executive Officer

Last quarter, this number was, if you see December '11, just one second. If you see last quarter December '11 it was 87%.

Aditya Singhania

Sure.

Rajeev Jain, Chief Executive Officer

87.3 has gone to 89.3.

Aditya Singhania

Right.

Rajeev Jain, Chief Executive Officer

So I think that business is continuing to hold steady. In the consumer durable business the drop is from 98.5% to 97.8%. So, it's not a significant drop, if I give you April data that number is already up at 98%. It's not a significant, but I am not ignoring the point as I said early and I say it now. We are watching the credit performance in a hawkish manner given what's happening externally given the eco system in which we are we can't be untouched by it.

Aditya Singhania

Sure.

Rajeev Jain, Chief Executive Officer

So, we are watching it at a reasonably hawkish manner and we will hold that line even if it comes at the cost of compromising on the credit, on the volume line.

Aditya Singhania

Right. Thanks so much, thanks.

Operator

Thank you. We have the next question from the line of Yogesh Hotwani from IndiaNivesh Securities. Please go ahead.

Yogesh Hotwani

Yeah, hi good evening sir.

Rajeev Jain, Chief Executive Officer

Good evening.

Yogesh Hotwani

Okay, congratulations on the good set of numbers. Most of my question has been answered, just wanted to understand about the borrowing profile like how much is that reprised in Q1 of current fiscal or in FY13?

Pankaj Thadani, Chief Financial Officer

See our total borrowing, this is Pankaj Thadani here, our total borrowings as I said stood at 10,200 crores odd of which the short duration borrowing is around 2,800 is short term borrowing and another some long-term borrowings falling due in the current year, is another just a moment it is - is another 1,000 crores. So out of the total 10,200 crores about 3,800 crores is falling due in the next year, the balance 6.5 is not falling due in the next year. So that is around 60 odd percentage in more than one year's space.

Rajeev Jain, Chief Executive Officer

No, but some of that could be variable as well.

Pankaj Thadani, Chief Financial Officer

Yeah, so profit could be...

Rajeev Jain, Chief Executive Officer

So some of those lines, so from a ALL standpoint 68% is not falling due, but some of that will, some of those are lines out of those 6,800 I don't have if we would have the number are on variable 50% of that I mean out of the 6,800 would be variable base rate linked pricing

as our base rate drop our pricing will drop as well. Having said that we also have another 6,000 crores of lending on the other side which is on variable rate, so that will also drop. So both sides, would readjust if the interest rate environment was to, if the interest rate cycle was to start going down.

And just wanted to know the outstanding borrowings in Q4 FY11?

Rajeev Jain, Chief Executive Officer

Q4 '11 what the outstanding borrowing was.

Pankaj Thadani, Chief Financial Officer

FY11 just hold on, one moment, I'll give you.

Rajeev Jain, Chief Executive Officer

6,000 crores. 6,700 crores.

Yogesh Hotwani

Okay. And about the current year's borrowings, how much of it -- from the banks?

Rajeev Jain, Chief Executive Officer

So this year mix would be 50% mix would be from banks and 50% would be from money markets.

Yogesh Hotwani

Okay

Rajeev Jain, Chief Executive Officer

Last year it was 40-60. 40% was markets and 60% was money markets.

Yogesh Hotwani

Okay. Alright, that's it. Thanks and all the best for the next quarter. Thank you.

Operator

Thank you. We have the next question from the line of Silky Jain from Nirmal Bang Securities. Please go ahead.

Silky Jain

Hello, sir. Most of my questions are answered but just wanted to data point, can we get the breakup of the other expenditure in this quarter as in how much was marketing commission and recovery commission?

So, overall other expenses that you see in Q4 of about 135 crores, right?

Silky Jain

Right sir.

Pankaj Thadani, Chief Financial Officer

I'll just give you the breakup of that, the marketing commissions are about 28.

Silky Jain

Okay.

Pankaj Thadani, Chief Financial Officer

Recovery commissions 26.

Silky Jain

Okay.

Pankaj Thadani, Chief Financial Officer

-incentive is 15.

Silky Jain

Okay. And...

Pankaj Thadani, Chief Financial Officer

What you were use to seeing in the past that's right?

Silky Jain

Right sir. And sir the vis-à-vis number in Q4 would be around 33 crores in marketing?

Pankaj Thadani, Chief Financial Officer

Sorry.

Can we get the vis-à-vis number in Q4 FY11 as well?

Pankaj Thadani, Chief Financial Officer

I'll just give you, marketing commission for Q4 you're asking, right?

Silky Jain

Yeah, last year.

Pankaj Thadani, Chief Financial Officer

Was 17.

Silky Jain

Okay

Pankaj Thadani, Chief Financial Officer

Dealers was 13.

Silky Jain

Okay.

Pankaj Thadani, Chief Financial Officer

Recovery was 15.

Silky Jain

Okay sir. And sir any sense if we can get on what sort of cost to income ratio are we like targeting or looking ahead for FY13?

Rajeev Jain, Chief Executive Officer

See we held at around 48%.

Silky Jain

Right.

Cost to income ratio, it goes up to -. Yeah, so 46, 47, 48, 46 and 48 you would see a continue to hover between 46% and 48%. We are continuously investing in building capability framework. So whether it's launched or lifestyle business or the credit card business or transitioning out from a Tier 2 vendor on the mid office back office to TCS. All these are investments in either ensuring we improve controller-ship or improve scalability of the business model. So all these are investments that we continue to make, so you would see us hovering between 46% and 48%, between 45% and 48% is what I would actually say.

Silky Jain

Alright sir. Thanks a lot sir.

Operator

Thank you. We have the next question from the line of Rahul Bhangadia, a follow-up question from Lucky Securities. Please go ahead.

Rahul Bhangadia

Yeah. Thank you for taking my question. Sir actually I have a very basic question, your risk weight across all the three segments is the same at or is it different?

Pankaj Thadani, Chief Financial Officer

No, we have all 100% risk weights.

Rahul Bhangadia

All are at 100% risk weights. Now given that can you see for a networth of about, you ended your 2012 to about 200 crores net worth and your loan were about 10,200 and you mentioned that you wanted to go up to full leverage of maybe, by the end of the year at about 6.5. Now with that it looks like your advances growth is going to be much, is going to be reasonably fast in, where are you looking your advances would to be this year or your outstanding book or what ever?

Rajeev Jain, Chief Executive Officer

So as I said, I mean if we grew 25%, the large part of the contribution is essentially coming from consumer and SME. It won't come definitely the commercial business won't grow 25%. So whatever is the lower growth in my sense is that number would be more like 15%, the balance would be contributed by the consumer and the SME businesses.

Rahul Bhangadia

Yeah. So given that that you don't expect - to grow much beyond 20% or 25%, I am just wondering and your ROEs are going to be roughly around anywhere between 20% to 22%, your leverages are not going to improve from here, right? Leverage is not going to improve in the sense?

Rahul Bhangadia

In the sense the leverage may not go up to your level of 6.5 or whatever, right?

Rajeev Jain, Chief Executive Officer

It can happen as well. That's correct, as I said I mean it will be whilst to forecast a half year rather full year at this point of time given where the environment in. So, we will take step at a time and look at first half of the year, and if the environment deteriorates from there we may not -- see look at it another way that if our ROE is 20%, 21% and if our growth is 25 then the gap is only 4%.

Rahul Bhangadia

Right, exactly.

Rajeev Jain, Chief Executive Officer

Right. So, we will, I understand the question, we will take it one step at a time, we will take it for the first half of the year and then we are on second half of the year depending on the external environment. We may choose to even grow 20%.

Rahul Bhangadia

Right.

Rajeev Jain, Chief Executive Officer

Still 20%, then we may not even require capital for first half of next year also.

Rahul Bhangadia

Right. So given the present growth estimates that you have, you are probably not going to reach your 6.5 or anywhere close to that in terms of leverage.

Rajeev Jain, Chief Executive Officer

13 we won't reach, we don't need capital

Rahul Bhangadia

Yeah, because that leverage and your growth rates are not matching, that's why I just asked this question. It's a fair point, but it's a three year view from capital raising, so that's the orientation.

Rahul Bhangadia

Yeah. So there is a possibility that your leverage might be remain here or if you want to go up on the leverage given the situations that you may find two quarters down the line, you might increase your growth rates if you feel the situation demands it, right?

Rajeev Jain, Chief Executive Officer

That's correct.

Rahul Bhangadia

Okay, thank you so much.

Operator

[Operator Instructions]. We have the next question from the line of Mangesh Kulkarni from Almondz Global Securities. Please go ahead.

Mangesh Kulkarni

Sir, you have mentioned about the borrowings of around 10,226 crores, but the balance sheet provided along with the results shows around 9,200 crores of borrowings?

Pankaj Thadani, Chief Financial Officer

See this is the result of the new schedule VI.

Mangesh Kulkarni

Okay.

Pankaj Thadani, Chief Financial Officer

Which is the revised schedule VI that has come into play, where you gave on the face of the balance sheet which is what we have provided along with the results you find only long-term and short-term.

Mangesh Kulkarni

Right.

Otherwise what they have done is that current maturities of long-term debt are been clubbed along with current liability. So going forward or from the face of the balance sheet, you won't get the total indebtedness, you will have to run through the schedules.

Mangesh Kulkarni

Okay.

Pankaj Thadani, Chief Financial Officer

Right?

Mangesh Kulkarni

Okay sir. Thank you.

Rajeev Jain, Chief Executive Officer

We put into three different places.

Mangesh Kulkarni

Okay sir. Thank you.

Operator

Thank you. [Operator Instructions]. We have the next question from the line of Ajay Laddha from Vantage Securities Limited. Please go ahead.

Ajay Laddha

Sir, can you give us a flavor of what you see the lifestyle business over the next three years, what kind of quantum you see there?

Rajeev Jain, Chief Executive Officer

Yeah, this business would be, my view would be at least it could be a 1,000 crore disbursal business in the next three years time. The ticket sizes are better in the business, the credit performance is better. We've been at it now for 15-16 month, we ran a test with at home which is going to be the largest furniture retailing stores chain in the country. They have around 40 odd stores, and we've done around 5,000 loans in the last one year. And the loss performance on the business is exceedingly strong, the ticket sizes are better, the quality of customer that comes through the door is better. So, from a three year business standpoint, I would think this is 1,000 crore deployment business.

But considering the fact that in one of your interviews you mentioned that the size of the business is almost three times consumer business.

Rajeev Jain, Chief Executive Officer

Correct.

Ajay Laddha

Do you think 1,000 crores is a slightly conservative estimate?

Rajeev Jain, Chief Executive Officer

It could be. See these are very, very early days, these are very early days in the business. But I also do want to step to you that there are the nuances are little different and we are learning it as we grow. Unlike Samsung TV 42 inches that you're going buy you to got to Chroma or which I say is the same.

Ajay Laddha

Correct.

Rajeev Jain, Chief Executive Officer

Whereas given that, a furniture looks very different from one store to another. Customer shops lot more, the sales cycles are longer. There are nuances of the business as well. The fragmentation of the The fragmentation of the retailing is much more than consumer durable. So these are early days, I think we will learn as we go forward. 1000 crores annual disbursement number would be a fair number.

Ajay Laddha

Correct. And get me what is the kind of tenure that the --

Rajeev Jain, Chief Executive Officer

It will be a 10 months only. So the same tenure as the consumer durable business.

Ajay Laddha

Okay. Thanks a lot.

Operator

Thank you. That was the last question. I'd now like to hand the conference over to Mr. Karan Oberoi for closing comments. Please go ahead sir.

Karan Oberoi

Thanks. On behalf of JM Financial, I would like to thank Mr. Rajeev Jain and Mr. Pankaj Thadani of Bajaj Finance and all the participants for joining us on the call today. Thank you and good bye.

Rajeev Jain, Chief Executive Officer

Thank you very much.

Pankaj Thadani, Chief Financial Officer

Bye-bye.

Karan Oberoi

Thank you all. Wish you all the very best for the next quarter.

Operator

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