"Bajaj Finance Q4 Financial Year 2016 Results Conference Call"

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ANALYST: **MR. KARAN SINGH - JM FINANCIAL**

MANAGEMENT: **MR. RAJEEV JAIN - MANAGING DIRECTOR - BAJAJ FINANCE**
MR. DEVANG MODY - PRESIDENT - CONSUMER BUSINESS - BAJAJ FINANCE
MR. SANDEEP JAIN - CHIEF FINANCIAL OFFICER - BAJAJ FINANCE
MR. PANKAJ THADANI – CHIEF COMPLIANCE OFFICER – BAJAJ FINANCE

Moderator: Ladies and gentlemen, good day and welcome to Bajaj Finance Q4 FY2016 Results Conference Call, hosted by JM Financial Institutional Securities Limited. As a reminder, all participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Karan Singh. Thank you and over to you Sir!

Karan Singh: Thank you. Good evening, everybody and welcome to Bajaj Finance's earnings call to discuss the fourth quarter results. To discuss the results, we have on the call Mr. Rajeev Jain, who is the Managing Director, Mr. Devang Mody, who is President, Consumer Business, and Mr. Sandeep Jain, who is the Chief Financial Officer. May I request Mr. Jain to take us through the financial highlights, subsequent to which we can open the floor for Q&A session. Over to you, Sir!

Rajeev Jain: Thank you Karan. Good afternoon to all of you. We have uploaded the Q4 investor presentation in the investor section of our website. Overall the company had a reasonably good quarter. We ended the year with overall balance sheet of 44229 Crores. For the quarter the quarterly profit came in at 315 Crores which is a growth of 36%. Overall volume momentum from a customer acquisition standpoint remained reasonably strong. The company acquired 1.6 million customers, which is a 36% growth. Total income came in a tad below 2000 Crores for the quarter, which is a 35% growth. Net interest income came in at 38% growth just a tad above 1150 Crores.

Loan losses and provisions grew 37% but this included an additional provision that we took in the current quarter to the tune of 44 Crores, adjusted for that loan losses and provision would have grown only 16%, this 44 Crores number was on account of one infrastructure lending account that we have. The total infrastructure-lending book is down to less than 50 basis points of the total portfolio. The account is a standard account but we deemed it appropriate from prudent standpoint to provision for it given that it is in a steel and power space.

Overall, profit before tax came in at 42% growth at 489 Crores, adjusted for the 44 Crores onetime the profit before tax would have been higher, that came in at 36% the differential of 6% was largely on account of effective tax rate for Q4 FY15 was lower due to revaluation of deferred tax assets and that is how you see the differential. Overall it has been a reasonably good year for the company.

The gross NPA on 150 day reporting I would like to qualify again that we provision on 90, we report on 150 from June quarter onwards we will start to report an 120 and from next June onwards we will start the provision on 90. On 150-day basis gross NPA was at 1.23% and net NPA was 28 basis points, if we were to report the same number on 90 days the gross NPA would be 1.43% and net NPA would be 43 basis points.

Very quickly if you have access the investor presentation on page #14 in terms of our overall you would see across our 19 different lines of business that we have growth momentum remained reasonably strong, the two businesses that we had articulated as part of our strategic overhaul where we went direct which is loan against property and self-employed home loan grew by 1% our overall estimate was it would actually probably de-grow but we are heartened by the fact that at least grew albeit by only 1%.

So our assessments across all portfolios remain largely green, it remained yellow for loan against property because of external environment and less to do with internal performance of the portfolio.

Infra lending as you can see is down to less than 300 Crores of the total book from 44229 Crores and that is clearly a red.

If I jump very quickly to the management discussion on page #20 the two wheeler and three wheeler businesses after a long time has started to grow as Bajaj Auto's domestic market share started to move, you have started to see us being a captive start to grow as well. So the two-wheeler and three-wheeler business grew in the quarter gone by. Consumer durable grew 23% digital products which is mobile financing and mobile laptop and tab financing grew 84% YoY the business is on course to deliver a million accounts business in the next year.

Lifestyle financing continued to grow in a healthy manner, we entered life care segment which is reasonably large business in the US run by the likes of Synchrony which is a GE Capital offshoot so we have launched life care financing for elective may to give procedure like dental and so on so forth in Q4.

Personal loan cross sell continue to grow we are now taking our overall analytics and risk management capability in this business to very different level to further reduce risk and augment velocity. We launch gold loans for urban market in Q4 we launched it in 25 to 85 markets that is 60 markets that we launched. We expect to be present in 300 cities so this business as we crack the business model could be present in 275 cities as a company in a foreseeable two to three years horizon.

Personal loans grew in line. Salaried home loans continue to grow. It is an 81% YoY growth. This business is very, very large business. As we crack the code on how to make money in a low margin business like salaried home loans, this business could grow very rapidly as we get into the current fiscal.

EMI cards the total cards in force now the company has, its second only to the largest private sector bank in India at 5.5 million, approved but not issued SIF if I was to take into account that number would be 6.5 million and growing by a million accounts year-on-year backing this business we launched a retail EMI card business where we are now able to offer small loans starting from Rs.5000 to of course it could be anything in consumer durable we offer loans up to 27000, it is a new category. The annual market size of this discretionary consumption pool is close to 150000 Crores, so clients who carry this retail EMI card are now able to use this card for fashion, travel and small appliances. We have launched this business in Pune, Hyderabad and Baroda and this will go live in 15 markets by mid of July and we expect to end the year with 25 cities and with close to 5000 retail stores footprint in the top 15 cities in India. It is a very, very large business opportunity in a three to five year horizon for us as a company the way we see it.

Rural lending has clearly beaten our expectations, we decided to break the business to create sharper focus, we created a rural B2B business and rural B2C business and created two separate verticals in the rural business in addition to the MSME business that we have should clearly help augment growth in the rural business. We are now present in 397 locations with 90 branches and 307 spokes.

We are launching Tamil Nadu in Q1 taking our total branch footprint coverage to close to 460 towns and villages.

MSMEs overall remained in distress due to drought and thus we slowed down the business in Q4. We are making efforts to reenergize the business but it will be dependent on how monsoon plays out that we would depend, take a call in growing the business.

I would spend just two minutes on loan against property and home loan self-employed and then jump to how the credit quality was in Q4 and then open it for questions.

Loan against property as I explained to you remained hyper. We took the strategic call to go direct just to restate we have 16 million customers as a company. Our clients have outstanding mortgages that we know of, of close to 300000 Crores of the total banking system assets in the mortgage place of close to 1100000 Crores we decided that given the hyper competitive state which is leading to margin dilution on one hand, higher distribution commission on the other and few customers being chased by too many lenders we took the decision to loan against property and home loan self employed only to our clients. As a result both these portfolios grew only 1% our internal expectation was degrowth but as we cracked the code on going direct we should clearly see both these portfolios grow between 20% and 30% on a reasonably medium-term horizon for us as a company.

Commercial lending business has continued to grow; infrastructure finance I talked to you about, the total portfolio is now down to 300 Crores in infra and less than 55 Crores in construction equipment. I just want to also qualify that the 44 Crores additional provision that we took in Q4 does not qualify into our provisioning coverage because it goes into general provision rather than very clearly because the assets against which we have provided is a standard asset, it is an important point that I thought I should mention.

Fixed deposit business we continue to move in the direction of diversifying our liability profile 6% of our balance sheet of our borrowing book now comes from fixed deposit. We launched a corporate liabilities business so there is a retail deposit business now and a corporate liabilities business both these should help us diversify a liability profile contributing to anywhere between 20% and 25% of our balance sheet of this liabilities balance sheet in the next three to five year horizon. Jumping I have already talked about on page #27 about the portfolio metrics. Gross NPA 1.23, net NPA 0.28 provisioning coverage 77% we provide at 90 days within the company so clearly no impact as a result of transition in this year to 120 and by next year to 90 for us as a company.

Very quickly jumping to how the portfolio is held on slide# 31 you see green dots so pretty stable portfolio performance across like 31, 32 and 33 we have added a new set of disclosure from this current quarter, given the 20 different businesses the company is in we decide to share from a disclosure standpoint what is our gross NPA, net NPA and provisioning coverage by each one of the portfolios from a disclosure standpoint. So since it is a new slide I will spend two minutes, if you look at the two wheeler and three wheeler financing our company’s gross NPA is 1.23 the two wheeler business just on a standalone basis gross NPA is 4.28 and net NPA for the company is 28 basis points, for two wheeler is 1.08% very clearly, so the greens and the reds represent what our assessment is. The business model allows for even from a product profitability metric allows for even higher than the gross NPA, net NPA that we are actually articulating here, so the greens and the reds represent that. Infrastructure lending in our assessment is only red that you see not taken into account the 44 Crores the additional provision that we have taken on our standard assets. That is really the quarter gone by and me and my colleagues are here to take questions that you may have.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

Kunal Shah: Sir firstly in terms of this LAP and the self-employed home loan what is the proportion of business, for now is it like 100% entirely in house?

Rajeev Jain: We do some high net worth clients of LRD accounts which essentially still remains distributor that gets booked so self employed home loans and salaried home loans 100% is direct that is point one. In the LAP business there can be lease rental discounting to HNI clients which can be 10% to 12% of the business on a month-on-month basis which could come from there.

Kunal Shah: When we look at this prior to this strategy?

Rajeev Jain: 65% to 70% was distributor driven.

Kunal Shah: Now maybe so we would incrementally shift everything to in house of that.

Rajeev Jain: That business we will never be able to that 10%, 12%, 15% because it is a chunky transaction, it may move, in a quarter it can be 5%, in a quarter it can be 15% but that business because it is dependent on the high net worth client will continue to be third party driven but otherwise rest all of it we have walked away from distributor business.

Kunal Shah: Sir thanks for this disclosure in terms of the product wise GNPL but when we look at a LAP in particular are you comfortable with this 0.74% which is disclosed out here or is there any worries on the 8000 Crores kind of a portfolio. Today we have hardly like say 60 odd Crores of GNPL so maybe doing the internal assessment what is our view in terms of how much could be the stress in this portfolio, maybe a particular down the line.

Rajeev Jain: There are two parts to it. Does the broader loan against property portfolio remain in our assessment on watch list, our answer is yes, again caused by intense competitive activity in one hand, secondly real estate prices in some of the markets have taken a big hit, so a large part of the yellow in slide 32 and this 0.49% net NPA 60% of this would come from northern markets, 70% probably. Structurally in the last two and a half years we have brought northern markets which is Delhi and forward contribution down to the loan against property business from 25%, 26% to now down to 16%, 17% and we will keep bringing it down because that is the market which has suffered the most on account of significant deterioration in asset prices. Would we like it to be lower, the answer is yes, but given the fact that it is backed by 1.5x property cover SARFAESI is expected to be notified anytime soon, that is why our assessment is green on coverage, our assessment is yellow from a watch list standpoint on keep watching the portfolio.

Kunal Shah: But in terms of the in house maybe so the strategy on the growth front could actually be there so maybe if we have to look at it in terms of the proportion of the overall book so will this secure segment actually come off over next two, three years given this kind of a transfer?

Rajeev Jain: By second half of the year we should start to see this grow well again.

Kunal Shah: In line with the AUM.

Rajeev Jain: Yes.

Kunal Shah: So in terms of proportion maybe it could be a quarter or a two blip not a structural blip.

Rajeev Jain: We are quite clear that it is a large strategic asset class with a reasonably strong long-term horizon the model had run its course for the last six, seven years that we have done this business model, it is the right time to change the model and if we think it is strategic we have to make the effort to make the change, and that is really what we are up to.

Kunal Shah: Infra lending provisioning of 44 Crores, how big is the account or is it like 100% provided for?

Rajeev Jain: No it is not 100% provided for, it is provided for reasonably.

Kunal Shah: The 100 Crores is the overall book.

Rajeev Jain: Okay it is provided to the extent that if we decide to sell down we would not be required to take any P&L hit.

Kunal Shah: Any further hit.

Rajeev Jain: Yes.

Kunal Shah: Okay, because the overall book AUM itself is 300 Crores so that is it.

Rajeev Jain: Correct that is right.

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

Umang Shah: I just wanted to have clarity on two things, one was, on a quarter-on-quarter basis, we have seen dip in the consumer durable and the salaried personal loan segment, one is the reason for the dip in the consumer durable business and second is, is there any kind of a reclassification between personal loan cross-sell and salaried personal loan.

Rajeev Jain: Sorry just repeat you had a question on consumer durable is it.

Umang Shah: Yes that is right so sequentially we have seen a kind of a sharp 300 odd Crores kind of a dip in the consumer durable book.

Rajeev Jain: Because that is seasonal right, because we had a very strong, the book is only five months right if you recall. So if you have a stronger prior quarter on page #14 what to have because the balance is runoff in four months so Diwali book runs off that is point one, clearly it was 33% growth full year growth our business was 40% so in a way fourth quarter growth works slower than nine month growth. So that is point two. On salaried personal loan there are two dimensions to this, one is on reporting standpoint, and clearly the growth has slowed down. We took a proactive decision to trim 20% of the business in end of Q3 there is also a reporting change we have started to now publish BFS direct if you see on the 19th business done through online a client can come onto a website apply for a home loan or a personal loan, both these numbers was sitting in respective places of home loan and personal loan, the impact of personal loan is much lower so there are two dimensions to this, it is good you asked the question so that we can clarify that.

Umang Shah: In fact BFS direct was my next question, so you already clarified that. I just need one more data point what would be your outstanding pool of accelerated provisions now?

Rajeev Jain: Outstanding pool of accelerated provision last year we have taken 75 Crores, we took 44 now and we have taken 31 Crores in Q2.

Sandeep Jain: The cumulative number between what we provide a 90 to 120 days for provision and what we have taken in the infra account the number would be close to about 150 Crores.

Rajeev Jain: There are three dimensions, this has infra and mortgage accelerated provision. There are accelerated provisions sitting even in mortgages so between both of them put together it is close to 150 Crores as Sandeep is clarifying.

Umang Shah: And just one last thing the loan against property portfolio that we are seeing of 8300 odd Crores so that book is now kind of a fully converted book which is in to the direct business except for the LRD part.

Rajeev Jain: No, converted book in the sense the current book of 8985 right 8332 has lets for a moment 40% of the book is direct and then 8442, 8648 another 5000 Crores is indirect so as to say indirect on the book, now I want to qualify one statement it is about nothing go with credit quality so that we are clear it's got to do with the fact that from an ROE standpoint we cannot charge 90 basis points or 100 basis points from the client and distributor was keeping 90% of it did not create a viable minimum hurdle rate ROE business model, so we did not walk away from distributor because of credit we walked away from distributor for margin so we see no differentiation between credit quality in a very structural manner you would see differences minor but not a structural difference between direct book and indirect book however I must add a last point as we crack the code in doing direct go more and more in a sharper manner towards our best customers will lead to in a structural manner lower risk portfolio among our existing customer franchise that we will go after.

Umang Shah: So my question was only from the perspective that so assuming that we keep on migrating from indirect to direct during FY17 will we see this portfolio stagnate for some more time or maybe even run down to an extent before it starts growing again?

Rajeev Jain: It is running down, there are two dimensions let me state it we as a company never used to charge any prepayment charges, as we walked away from the distributor business, distributor fundamentally now we could have done that in December when we walked away from November end when we walked away from the distributor business, there was virtually an attack on our portfolio, we saw close to 1200 Crores of portfolio run down in the fourth quarter because distributors were fundamentally taking the book away from us to competitors for a commission purposes, we took the decision to start charging prepayment penalty effective early March, in March we have seen it, from March to April we have actually seen attrition slowdown as I said to you we do not have a view on credit quality on the distributor book, we have a view on margin profile both on pricing and on commission.

Umang Shah: So for next few quarters we will see this book growth in this particular book remaining slightly under pressure.

Rajeev Jain: Yes that is right.

Umang Shah: And have we started booking home loans under the housing finance book or we still have it on the NBFC book.

Rajeev Jain: Middle of July to early August, the work is on project is going on because virtually creating another entity, from between middle of July to first of august we will start to book assets in the new entity.

Moderator: Thank you. The next question is from the line of Ashish Sharma from Enam AMC. Please go ahead.

Ashish Sharma: Hi Rajeev congratulations on a good set of numbers and thanks for the insight on business wise details. This is a continuation of Umang's question, if I have to read this LAP book degrowth slight with runoff in the book that will not change the overall AUM growth sort of a target for FY17.

Rajeev Jain: Depends on what you think the target is we continue to…

Ashish Sharma: Same assessment of the whole AUM growth.

Rajeev Jain: Yes so we are quite clear that for the second year in a row the bank credit growth has come in at just about 10% we continue to target a 25% balance sheet growth and a 20% net income growth, as the company gives us the leverage to pullback from asset classes that we deemed watch list for that growth profile LAP and self-employed home loans will not come into the way and we are working very hard, the teams are working very hard to get both these businesses back to growth in a direct mode definitely from anytime between second and third quarter.

Ashish Sharma: And just one more on that direct and indirect book the 40% direct book you mentioned what sort of growth momentum and what sort of a pace of growth that book is growing at sir.

Rajeev Jain: If I take March which numbers are here so let's look at it right and we have done, you are seeing a 500 Crores number in the quarter, this number would fundamentally go up to 900 to 1000 Crores a quarter by second quarter.

Ashish Sharma: And then sir second question would be on the credit cost for the full year we had 70 Crores sort of a extra provision on the infra account if I adjust for that the credit cost on an average AUM is closer to 122 bps so in your assessment is this normalized sort of a credit cost or we can sort of improve on from here what is an assessment on the credit cost sir?

Rajeev Jain: These credit costs have now remained like this for the last three years and they have moved 10, 15 basis points here and there. We think they remain at historic low levels, having said that we do not expect it to change materially but and we continue to invest in technology and analytics to improve our velocity without diluting credit but this number is an outcome Ashish more than an input, we continue to watch this we continue to invest in technology and analytics and we think fundamentally you can always improve any number so can this number improve, the answer is yes, if the economy turns around if all the green shoots that you guys are talking about happens monsoon is good credit growth picks up you could clearly see these numbers improve, the answer is yes. I would not bake them in.

Ashish Sharma: And just lastly two questions sir, on this whole universal bank license norms released by RBI a couple of weeks back, what is your assessment of the same and what is your strategy with it?

Rajeev Jain: Ashish these guidelines are in draft, so we would wait for the final guidelines to come, are they clearer than previous guidelines, the answer is yes, they are answering a lot more questions directly and clearly in the face, so we will wait for final guidelines to emerge and then with shareholders evaluate appropriately as to what is the right thing to do, this is on-tap now, there is no window. It is about readiness as a company rather than window which itself is a great thing, so is we watching it closely, the answer is yes, we will take our time but we are not going to jump into it.

Moderator: Thank you. The next is from the line of Mukesh Tualani as an Individual Investor. Please go ahead.

Mukesh Tualani: I am an individual investor, just wanted to know very recently the company has forayed into the life care segment and what has been the company's experience although it is hardly two months and how would the company present future outlook for the same and secondly the same question would also be for products which are being sold by online sellers what is the company's take on it?

Rajeev Jain: We do not jump into things. Two years ago started to do stem cell financing as part of our lifestyle financing business. We do around 12000, 15000 accounts per annum, 1000 accounts, the portfolio performance of that for the last two years has been good, parallelly we were studying at a benchmarking level are their businesses which do life care, stroke medical credit so the GE capital offshoot in the US called Synchrony has a very large business of life care financing they call it care credit, it is a reasonably large business, its performance based on the disclosures and public information available is good, our experience having tested it in the stem cell storage has been good. We are investing in it with a three to five year view and we think it should play out.

Secondly on e-commerce we think it is the way to go. It is the way millennial are doing purchases, so clearly we got to learn how to play that game, so we have gone in line with Flipkart. Flipkart has given us access to some categories in March. As they gain more confidence, as we gain more confidence in offering Flipkart customers who have an EMI card to make purchases hopefully this partnership will grow and in the immediate future let's say current fiscal its overall contribution both of life care and of e-commerce financing will be not be material but in a three to five year horizon it could be reasonably large is what our strategic view is at this point in time.

Mukesh Tualani: I was just looking at this thing the market size of life care was stated at around 20000 Crores that could provide a very good opportunity for the company.

Rajeev Jain: Yes, it is growing and we think it is quite exciting, we are working with lot of organized format, healthcare institutions like Vasan Eye Care, Ruby Hall, Rich Feel, so we are growing this business.

Moderator: Thank you. The next question is from the line of Abhishek Murarka from IIFL. Please go ahead.

Abhishek Murarka: A couple of questions, first is some connotation to the overall NBFCs as well. The recent guideline on large credit exposures by RBI, do you think it could be a constraint for large NBFCs or even as you gain scale do you think it could be a constraint from a financing or funding point of view?

Rajeev Jain: I will request Pankaj to probably comment. I think it is in draft phase first of all.

Pankaj Thadani: First of all it is in draft phase. As we read this we will get classified as the specified borrower in 2017-2018 and the fact that today our share of money market and bank borrowings we have a large amount of money market and a bank figure 5055 after being classified as a specified borrower since we have already got 15% of our borrowings in the form of money market borrowing we will be eligible to take 60% of our incremental borrowings every year from the banking channel which we think is comfortable and should not impact us.

Abhishek Murarka: Of course today you are also down the line, because your scale is also?

Rajeev Jain: Parallelly Abhishek it is our stated strategy that we want to grow our retail deposit and corporate liabilities which is direct to corporate business in less than two years it is already 6% of our overall borrowing. We are quite clear we got to take it to 18% to 22% of our borrowing balance sheet in years to come so that is a parallel point more and more and more diversification of our liability side is clearly the key focus area for the company as the size grows to 55000, 60000 Crores by FY17.

Abhishek Murarka: The second question is basically on your e-commerce efforts, I think it has been about two or three years at least since you have been trying to establish a platform, what are the key challenges? What stops you from sort of making let us say tying up with the lot of e-commerce players can you just highlight what are the key challenges and if others can also replicate this easily or will there be a significant entry barrier for others to also replicate the model.

Rajeev Jain: Fundamentally, let me, if I can be a little off track. I would say first of all e-commerce businesses have to start looking at long-term, let me make that broader point, if they start to look at it long-term in the consumer discretionary space they will become clear especially any part of the world actually that consumer credit is embedded into the mall, as they become clear about it they will do long-term relationship structure and capability so now it is our assessment that they have not done that so that is point number one which means I can do much less about it than I would like to do, secondly as they become clear we are a technology oriented company, we have the analytical infrastructure required to offer seamlessly our clients a seamless experience. Thirdly we are the only company which offers what I call a loan card, there is a debit card, there is a credit card, we offer a loan card, we will have 7 million of those actually more approved but issued would exceed 7.5 to 8 million by March 2017, these clients have a limit stroke a line loan line available which they can fundamentally swipe multiple times. No banks or nonbank in the country offers it and it is a massive capability that we have. We are now already taking it offline with a launch of our retail EMI card business as I talked about has gone live in three markets, it will go live in 15 markets and over 2000 stores by March 2017, off line market of that alone is 150000 Crores, we today cater to close to 200000 Crores between mobile, durables and furniture this itself is another 150000 Crores market, between 120 to 150 depending on the geographic coverage that we keep expanding, anything you wanted to add Devang.

Moderator: Thank you. Our next question is from the line of Aditya Pandey from Capital Matrix. Please go ahead.

Aditya Pandey: Sir what is the interest cost for the whole year?

Rajeev Jain: 9.45%.

Aditya Pandey: And how much will be the interest cost for the FD.

Rajeev Jain: Defers by tenor and so the standard rate cut is published so that is a 12 months, I do not have immediate access to it but you would be able to see it.

Sandeep Jain: FD on an average for the year would have been in the range of 9% to 9.1% plus the cost of SLR and so on so forth.

Aditya Pandey: Sir who will be our target customer for direct to customer business, in our own portfolio will those be the non-delinquent customers?

Rajeev Jain: Fundamentally we are using the entire analytics infrastructure to identify and segment client. If I can take you for a moment to slide #13, which gives you total franchise 16.07

million customers 8.5 million customers to whom we can crosssell too, these 8.5 million customers are further segmented into ultra HNI to MAS, the target segment for LAP business and self-employed home loans business is affluent to super affluent, the segments are divided into 13 different segments and then we are focusing on affluent and above clients for the LAP in the self employed home loan and salaried home loan business.

Aditya Pandey: Can we take the 9.48 million numbers from non-delinquency that can be the database for us?

Rajeev Jain: So this is 8.49 with a bureau score of 7.50 and above, you are right, I could argue that 9.5 million is my cross sellable franchise because they have never defaulted with me but the entire analytics infrastructure bureau information is an important input, improves our propensity rates, improves our offer driver and they have not only good performance with me, they have good performance with the entire banking system so they are the best of the best, among these best of the best we then identify more best among the best which is affluent and above customers and then they are targeted for mortgages.

Aditya Pandey: Is there any ballpark number for that?

Rajeev Jain: 8.5 million that franchise as I said to you the clients that you are targeting have an outstanding mortgage of 300000 Crores in the banking system out of these 8.5 million clients.

Moderator: Thank you. The next question is from the line of Hiral Desai from Anived PMS. Please go ahead.

Hiral Desai: Similar to a question that somebody asked earlier in terms of the disbursement slowing down for salaried personal loans and in the presentation I think you called out competition from private banks also so just wondering what is the road ahead for the business segment?

Rajeev Jain: The road ahead for business segment is that we will go more and more and more direct to our client franchise that is the road ahead. Today 45% of this business is done only through our customers who have gross annual incomes of 10 lakhs and above road ahead means we will not be able to deal with distributor because we charge a 2% fees from the client and they take 3% and just below where our office is there are three private bank posters which say take a loan at 11.5%, now that is where we are so 11.5% give 3% I think I would rather do mortgages then to do personal loans so clearly road ahead is not great but unlike loan against property where we backed up into going direct we are going direct more and more and more in all our businesses of the company. You will see us accelerate going to direct in all our lines of businesses taking Opex out in the process ring friends in our client franchise and having a larger share of his wallet.

Hiral Desai: Would the internal customers that we cater to 100% overlap with the private banks in the salaried personal loan?

Rajeev Jain: The customers that we are targeting answer is 100% yes, saying 100% I mean too many people are focusing on gross annual incomes of Rs.1 million and above and the answer is 100% very much.

Hiral Desai: And the price disbursement that we had off approximately 5400 Crores for the year how much of that is coming from tier 2 and beyond.

Rajeev Jain: That is the second dimension one, we are going direct second we are going deeper and deeper so both these are active strategies that we are deploying to ensure we diversify and de-risk the business model. The outcome of that is it leads to greater volume momentum and velocity but that is not our driver. Our driver is to ensure we keep diversifying the business number one, keep derisking business as a result number two, three create higher and higher entry barriers to the business model in the process because as the competitive environment intensifies, competition in the retail assets will intensify; clearly now corporate is a bad word and retail is a good word, these are cycles, now when cycles come at the end of the day people do it in 15 cities because it is easier to access them, flights go to those markets, five star hotels are there in those markets, malls are there. The rubber meets the road in 25 city plus from 50 city plus it gets harder, 100 city plus it gets rarely hard now 200 city plus you have to go to the nearest 50 kilometers to stay in a decent hotel. So that is really what we are working towards but I want to caution that it is not just about the hard work, India is not a country it is a continent, if you take example of consumer durable business we now do not look at it as one business because just less than five years ago we were doing one million customers a year, last year we did 4.8 million, they are not 4.8 million from one country, they are actually from three countries 0 to 15 cities, 15 to 50 cities, 50 to 100 cities, 100 to 300 cities and we think actually for now it is 100 to 300 it will become 200 to 400 by next year, so they are run on different customized credit models different application scorecards, they are different countries actually, so we are making that movement.

Hiral Desai: Rajeev ji, other is, since you emphasize so much on analytics qualitatively just wanted to check is that a centralized function, are there product specific teams and is it 100% done in house or are you working with external consultants as well.

Rajeev Jain: So whatever is core to you never work with consultant that is point one at a generic level, so it is core to us, we have a 80 member team in the company but whose job is not to do programming that is outsourceable role so for that we work with companies. These people convert the problem statement of businesses and functions, I must qualify, role of analytics is not just in business, it is in risk, it is in banking operations, we bank 5.5 million customers a month across the banking system 55 lakhs instrument get presented infrastructure as an example I am giving you. We think it is core competitive advantage to the business model and can manifest in various ways to provide velocity on one hand. That is really what we are up to.

Hiral Desai: Lastly just wanted to check this ticket size that you gave in the slide #14 of the presentation is this the average for the quarter or its broadly the average of the business that you would typically target?

Rajeev Jain: Yes, that's average but they would not change too dramatically, these numbers wouldn't change too dramatically.

Hiral Desai: So on the personal loan side if I look at a 60% kind of growth that you had on the book this would predominantly be volumes, there is not too much of change in the ticket size upwards.

Rajeev Jain: Yes, 4.79 lakhs personal loan if you looking at it can more than move by Rs.20000, Rs.30000 on a quarter-on-quarter basis that is all.

Hiral Desai: So that is not a meaningful change.

Rajeev Jain: Not meaningful at all.

Hiral Desai: Sandeep if you could just give us the fee income number for fiscal 2015 and fiscal 2016.

Rajeev Jain: "*Arrey hamarey say zyada disclosure koyi karta nai, hum ek kaam kartey hain, dus saal ke number publish kartey hai*. Nobody other than us discloses more, I think we will publish 10 years numbers."

Hiral Desai: **"***Nai, nai Sir, woh annual report main milta nai number, I just wanted the number"*

Rajeev Jain: We will add that as well to the list of disclosures.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Capital 72 Advisors. Please go ahead.

Kashyap Jhaveri: Just one clarification you highlighted in the previous question every time the disclosures are higher than the previous quarter and its bit creating actually confusion for me. In this slide #14 where you have some 19 classifications of the loans, in this business loans, professional loans or probably some of the vendor financing what could be the collaterals in those businesses?

Rajeev Jain: The business loans structurally over the last nine years that we have done remains working capital unsecured loans. Professional loans are given to doctors and chartered accountants remain unsecured. The important point to note is that these loans these are the clients that we sell loan against property and home loans too so business loans and professional loans are what we call the funnel, that funnel 45% of them have a home loan or a LAP existing in the banking system and the goal is to convert them, in the process we do two things, lower risk business model to cross collateralize the existing exposure. So that is really what we are up to. Vendor financing is backed by charge plant and machinery and fixed assets.

Kashyap Jhaveri: Second question is on this lifestyle financing you mentioned about Synchrony Financial now Synchrony Financial has got a book of roughly about $7.5 million in terms of life care credit so within that are we targeting pockets or we are targeting everything which has got to do with the textile life care.

Devang Mody: I think in Synchrony's book dominant category in their book is actually dentistry, dental treatment. Of course, the market in India only for dental is not so evolved because they have a big market on cosmetic dentistry.

Kashyap Jhaveri: And so would be the case with veterinary also.

Devang Mody: Yes veterinary also is a large business but I think in their case if I am not wrong 65 odd percent business is actually dental, veterinary you are right veterinary is a growing segment but CARE credit was created for dental treatments originally and then they started diversifying into other categories. In our case, at this point of time we have a reason to believe that our 25% odd contribution will come from dental, the balance will come from hair and cosmetic treatments and some might come from some of the other surgeries including bariatric as well as the stem cell storage business. Since our market is evolving and we have a reason to grow much faster.

Rajeev Jain: I must make an important point we are investing in these categories with a three to five year horizon; they would not yield anything dramatic or material in the next one-year or even two years. It is a five year view with which we are investing in these asset classes and as the country grows more affluent and the business gets more organized, the practice of the world is bringing entire medical fraternity on one page, consolidation is happening and as that consolidation happens we will be there to ride the place.

Kashyap Jhaveri: Here, what could be the collateral, for example let's say if you do stem cell financing over there the collateral is hardly anything?

Rajeev Jain: Since it is the second question on collateral we will go to page #34. You tell me what do I do with the collateral, see there are two parts to this, I cannot take his teeth away, now look at the businesses that you so call risky businesses look at their net NPA because they have to flow through the P&L what do I do with the loan against property which is at 49 basis points net NPA but I am not troubled about either one of them because on one hand one which is a 0.07, 0.09 have no underlying collateral, I agree, I have to flow it through the P&L. Where I have an underlying collateral which is 1.5x property cover I do not lose sleep even if it goes through 49 basis points net NPA, now that is really the business model conversation that you are doing, this whole traditional definition and I have argued that over and over again it is argued only in this part of the world that secured and unsecured the entire banking system is fully secured isn't it, look at where things are, of course. No I am serious; it is a fully secured banking system.

Kashyap Jhaveri: I completely agree with you on that part, and this new portfolio, which is lifestyle, what is the loan tenure over, there would be with the think short tenure?

Rajeev Jain: 9, 10 months that is it, it is to be 4 and 4.5 months time and the loan sizes are 60%, 75%.

Moderator: Thank you. The next question is from the line of Jeetendra Bhatia from Bayard Asset Management. Please go ahead.

Jeetendra Bhatia: Just a question on the customer franchise which you have identified at 16.1 million or so this is a current live number, I am just curious to know, what would be the quantum of customers that you have touched at some point in time in your business trajectory who are not currently customers and what if anything is being done to bring them back so perhaps the people who have been customers in the past but for some reasons have left you either due to the tenure of a loan or a deposit franchise coming to an end or perhaps they have been won away by some competitor, thank you.

Rajeev Jain: It is a valid question, I think customer loyalty is also integral to the analytics infrastructure let me just clarify one or two points this 16 million franchise is not active. Today if you look at it active franchise is 6 million because as I said I am banking 6 million customers today, so these 16 million is since we transitioned in 2009 to a platform, in a way 1988 to 2009 franchise but that was focused on mass customer is not part of this, this is 2009 to now that is point number one, point number two this has out of this 6 million are active and 10 million are clients who have taken a loan from us and have closed loans and we are continuing to, based on our internal model and propensity on what people would like to purchase we keep targeting them either through various channels of e-mail, SMS and call center that is point two. Point three is the total bureau franchise in India which is 8.5 million we have, that number is like 100 million, so fundamentally that is our goal. I would like to have all 100 million customers in the country who are credit tested to be my customer, I could say it is not a vision; it is a mission statement that we would want all those 100 million to be our customers. We are bringing in let us take last quarter of 1.6 million 40% of them were existing customers which means we got in one million new customers, if you take that as an hundred we will bring in 4 to 5 million customers. Sandeep is clarifying 721,000 new customers I got in Q4. In full year, as you can see we got 3.2 million, so if 3.2 million grows 20-25% we will get 4 million more this year, so acquiring new customers remains central to the strategy of creating dominance in the retail space for us as a company, then once we get them then we put them through various models and then we target them using various campaigns.

Jeetendra Bhatia: Okay, I think you have given this number once before maybe in previous presentations, but perhaps if you could just remind us of your existing live customer book, what is the number of products touch point per customer.

Rajeev Jain: PPC remains at 2.7, 2.8 in the consumer, in the SME between 3.5 to 3.6 and that will accelerate as we go, as I mentioned earlier in the call, as we go more and more direct to our clients, this PPC will accelerate. I must make an important point going direct is the hardest thing to do; it takes a lot of effort. Rewards take longer to come, but as they come, they will reap substantial benefits to the P&L and to the overall franchise for the company.

Jeetendra Bhatia: Just final question in this regard, just two questions actually, related to each other. First is, when your customers have left you on account of whatever, as a competitor lock of a customer have you had the chance to by now collate long term data and some findings in terms of what are the main reasons when customers leave you, is it price, is it something else and what are those particular gaps that you may be seeing, right now your inflow of customers is very high and I am assuming these are net numbers you are talking about **;** 3.3 million or so is a net number but there may also be an outflow number associated with that net increase number which I do understand, qualitatively or quantitatively what is the main reason when customers leave that they identify if you have a chance to actually track that to know why they are specifically leaving and secondly in terms of going direct, which particular line items should we expect in your P&L will have to bear the stress of that operational model change so to speak where you are trying to have greater franchise value which the market will eventually reward in a substantial way in market capitalization of your company, that is for sure, along the way which line items should we expect will be bearing some more stress as you make this transition? Thank you. Those were my final two questions.

Rajeev Jain: I will answer the second one first that clearly you will see the dealer incentive line go down but the differential will not be apple for apple, dealer incentive line will go down dramatically and marketing salary line will go up marginally. The attrition of the balance sheet should slow down as Devang is saying may happen only from the second half of the year, may not be from now, thirdly, when customers leave anywhere in the world from a retail asset or retail bank standpoint, they leave for only two reasons, we can analyse it to depth, it is price and process, a right price and an elegant process in a very simplistic sense determines the customer stickiness. Now, if I save money in dealer incentive that is whole the business model that we are walking towards, we can drop the price. As I deal with let us say Sandeep Jain, who is my customer, for example, I know much more about him, I know what his performance across the banking system is which means I can make the process of new to Bajaj customer versus Sandeep Jain as an existing customer then act more elegant or versus a new customer from whom I would take 10 pages which is what the definition of process is, I would take from him one page which means he says oh, great, I don't have to make the effort to take a loan, I will take it from you. That is really how, as we rework going to direct, dealing with our customer, we will offer lower price, we will offer better process which should lead to reduction in costs on one hand and attrition on the other.

Jeetendra Bhatia: Of your total dealer driven zone, originated loans, what percentage should we expect as we look at this one, two, five years out, how would that change from 100-0, let us say if we have the dealer number at 100 and 0 is your portion that is being converted so what would be the percentage over the next year?

Rajeev Jain: 85% will go direct. There are two parts to it. The dealer, when I say dealer in the B2B business we will continue to deal with retailers, so you have to take that out, taking that off 80-85% of our business in a one to three year horizon will go direct, I mean, I am not saying for anything else, we may not be left with an option if the retail asset business gets heated up to where we see it is getting heated up to.

Moderator: Thank you. The next question is from the line of Kuntal Shah from Sageone, please go ahead.

Kuntal Shah: Hi Rajeev, two questions, given what the banking license norms are today, would you quantify or give some texture of pros and cons from Bajaj Finance perspective and secondly it is understandable why you are not present in two-wheeler, three-wheeler finance, but what about four-wheeler finance especially high-end second cars in terms of your customer segment or is it there is no juice left and thirdly if you could give some texture on distribution business of IFA and insurance in particular?

Rajeev Jain: Really we have done many times if we have a retail individual client in India other than offering him an auto loan we meet all his needs virtually today and checking account. Checking account which is a savings account and an auto loan, so checking account, I cannot do until I have a bank, so we leave that out, let us come to auto. We have done, over years, based on long-range projections, work on auto, how to do auto, we have looked at global models. It is a wholesale pricing and retail cost, outcome can only be grief as Pankaj is saying, rather than learning it at the end of it and lots of us have done auto, we started our careers doing auto, so we have a first love for auto, but just does not make money. Globally also Kuntal, and India is an exception to it, it is largely done by captives from a GMAC which of course in 2008 post GFC became Ally Bank and Ford Motor Credit to Volkswagen Financial Services to Fiat to Benz it is a captive business. We are very happy doing the Bajaj Auto captive business because we have control over point of sale and it is disproportionately profitable business for us, that is point one. Point two, banking, as I said, is too early to comment. It is in draft stage. We will wait for June 30 for the final guidelines to emerge, of course you will ask the same question again in July, we will come up with a response by then hopefully, but it is in draft, let the final guidelines come, but as I mentioned earlier one, it is a decision that has to be made by the shareholder, we as management can facilitate and assist the process, two, three, we would not jump in to it because it is on-tap. We were clear last time that it was a window opening for once despite knowing fully well that the ROE will drop from 20 to 12 because the window is opening in the first two to three years because it was a window, we applied. If it is on-tap and truly if it is on-tap, then we would take our time to try and minimise the gap between 21 and 12, now I must also articulate and I have said this in the past that while we did not get the bank, the strategic direction that we established for ourselves to be a bank, we never let that go, so the commercial business is now 10-11%, rural will be present by end of Q1 in 450 towns and villages. We are investing in areas like ORM. We have launched a flexi term loan, which virtually works like an overdraft account. Home loans is a business that we are growing much more rapidly, retail deposits have come in, it is already 6% of the balance sheet, we have just established in Q1 the corporate liabilities channel, all these are direction towards banks, two banks I do not know, towards bank answer is yes, so we will be much more ready if the decision was made. Thirdly on IFA, we now have empaneled 732 IFAs. It is nine month old. It crossed 150 Crores of total lending and deposits business in the quarter gone by. It is a slow burn channel. We think it is a low cost scalable business model sitting on a technology platform, helps us augment our partnerships with our agency partners in the life and the general business, so we are deepening the management structure to help grow this.

Insurance remains one of the largest distributed products from a bank assurance channel standpoint. We do sell different insurance solutions to different customers of ours, but we, in general, land up selling insurance when we do the loan. Given the 16 million franchise and 8.5 million great customers of the banking system, in April this year, we have built a predictive insurance life cycle model and we are backing it up with a channel which will basically sell open architecture multiple insurance products to our existing customers, it should say new insurance distribution channel that have created which in a three to five year horizon could be a very large fee income business model, so we have just gone live with it and we will build this out.

Mutual fund, margins are just too low, we are focusing on growing insurance at this point in time. We did not do three years ago, until two and a half years ago we did not do general; now out of the total insurance we do, general is now 35%. That is where we are. MF we will take as we move forward.

Moderator: The next question is from the line of Jhanvi Goradia from Motilal Oswal Asset Management, please go ahead.

Jhanvi Goradia: Sir, two questions on the financial metrics, one is the cost to income ratio, if I remember, couple of quarters back you had guided that because of the various initiatives on the cost side, you will see the ratio slide down sequentially, but then, this quarter the growth in opex has been at 35% almost same as the AUM growth, just wanted to know the reason for the same, secondly NIMs this quarter look a bit weak and I know it is a seasonal phenomenon but even compared to say March last year, they are a bit weak, so mainly on that and then I can ask my third question later?

Rajeev Jain: Look at the cost direction year on year rather than quarter on quarter, if you see FY 2015 it was 45.1, FY 2016 full year it is 4.37, I have talked through earlier, as we go more and more direct, as dealer incentive line which is one the largest lines in the P&L gets replaced, but as I said, albeit only at less than 30% of the cost, you will see this go down, so I think year on year there is clearly a drop. I agree it is still not where let us say lots of non banks would be but as I keep arguing that we continue to invest in technology, talent, technology and talent to deliver a high growth business you should see this number further drop to at least sub 43 it will go down to, so in a two-year horizon, we have to drop by 200 basis points is what you are likely to see. I would not read anything in to the margin except for the seasonality is what I would say to you. We are ready to drop business, not drop margins and you know that is really where the whole effort on going direct because the income profile does not, ROE model is not just defined, so clearly we are quite clear, we will drop business rather than drop margins or find other ways, if we have to restructure the business we will restructure the business rather than drop margin and I would not read anything in to the margins. Weakness, I would not read anything as I said in NIMs I would not read anything at all in to it.

Jhanvi Goradia: Sir you mentioned that the CD AUM this quarter ran out because lot of the loans happened in Diwali last quarter, so if I see most of the products are usually the loan duration is around 6 months to 12 months, so I would assume a CD loan would be on an average repaid in 8 to 10 months.

Rajeev Jain: He has paid down 50% by fourth month, right avenue, he is paying down principal every month in installments, 50-60% of what we booked in October-November-December, October book would have virtually washed the cost away 80%, December could wash away 60%, so it is very rapid.

Jhanvi Goradia: Sir does the EMI start only month, month and a half or two months after the loan is taken right or do they start?

Rajeev Jain: If you have taken the loan between 15th of the month, installment will come in the next phase, it is only if the loan is after 15th of the month that it comes in one-and-a-half months, that also we have now given the change in business and it is virtually we will end up giving what I call a free credit period to the customer that also we are bringing in a technology solution from October onwards that will also change.

Jhanvi Goradia: Sir if I see average ticket size on self-employed home loans which was about say 1 Crore in the Q3 presentation, it is about 75 lakhs only in this, so such a sharp drop is explained by?

Rajeev Jain: You will see this more likely to be between 75 and 90 lakhs as a result of direct to customer and 157 number you will see further go down to probably 130-135, this is the corridor between which these two products will move based on our segmentation model.

Jhanvi Goradia: So your average ticket size would go down when you go for direct.

Rajeev Jain: Yes, by design, so it is not going, we think that is average which means between 75 lakhs to 125 lakhs is the sweet spot in self-employed home loan from a business model standpoint.

Jhanvi Goradia: Sir, this quarter you would have done like fairly low-ticket sizes for the average to drop so sharply?

Rajeev Jain: No it is for the quarter but as I mentioned earlier the numbers would not change materially.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions, I would now like to hand the floor over to Mr. Karan Singh for the closing comments. Thank you and over to you Sir.

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

Rajeev Jain: Thank you Karan.

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