"Bajaj Finance Limited 2Q FY-'15 Results Conference Call"

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MODERATOR: **MR. KARAN UBEROI – VICE PRESIDENT, JM FINANCIAL INSTITUTIONAL SERVICES PRIVATE LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Bajaj Finance Limited 2Q FY-'15 Results Conference Call hosted by JM Financial Institutional Securities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Karan Uberoi from JM Financial. Thank you. And over to you, sir.

Karan Uberoi: Thank you. Good Evening, everybody and welcome to Bajaj Finance's Earnings Call to discuss the Second Quarter Results. To discuss the results, we have on the call Mr. Rajeev Jain who is the CEO; Mr. Rajesh Vishwanathan who is the CFO; Mr. Pankaj Thadani who is the Chief Compliance Officer and Mr. Sandeep Jain who is Head of Investor Relations. May I request Mr. Rajeev Jain to take us through the financial highlights subsequent to which we can open the floor for Q&A session. Over to you, sir.

Rajeev Jain: Thank you, Karan. Good Afternoon to all of you. We have uploaded on our website in the investor section the 'Q2 Investor Presentation', I will be talking through that. I am on Page #14. Overall Q2 was I would say pretty stable quarter for the company. In first half of the year so far we have delivered a 19% PAT growth, first quarter was a 20% PAT growth and 2nd quarter was a 18% PAT growth. We just fell a tad below Rs.200 crores in PAT and delivered the quarter at Rs.197 crores of PAT. Assets under management crossed Rs.28,000 crores which is 41% growth. Disbursements are strong at 50% came in across Consumer, SME and commercial. Consumer and SME grew both upwards of 50% and Commercial grew by 20%. Total income was up 29% versus disbursements growth of 50% in line with our overall sum of our strategy whereby we are focusing on reducing the level of beta in the current year in our overall business model. So that was the way it was in Q1 and it is followed sequentially as well.

Customers acquired were strong and grew just below a million customers, largely coming in from the Consumer businesses; Consumer Durable acquired close to 670,000 customers; Lifestyle business acquired 90,000 customers; Two Wheeler business acquired 142,000 odd customers; SME customer momentum across business loans and mortgages also remain strong and we acquired over 7000 customers in the current quarter. Loan loss and provisions were up 54%, contributed in some parts by the balance sheet growth over the last 18-months, one; two growth in provisions in the 3-Wheeler business, these were the two large drivers for growth in loan loss and provisions. The return on assets was stable at 0.7% annualized it would mean 3% on a full year basis, but Q1 was 3.44%, second quarter 2.8% normally sequentially Q2 and Q4 are weak, Q1 and Q3 are strong. So from a run rate stand point we are somewhere around 3.2% at this point in time for the full first half. Gross NPA and Net NPA moved sequentially from 1.13% to 1.41% and 0.27% to 0.48% sequentially largely on account of single infrastructure customer who has been with us for the last 3-years, this is only client of ours which had gone into CDR and he has now slipped further again into an NPA. We are working with the consortium on remedial action on the client. This is a Rs.50 crores exposure. Adjusted for this the gross NPA and net NPA number would have remained absolutely flat on a sequential basis.

Capital adequacy – our burn rate continue to be stable; however, we managed to raise Tier-2 capital to the tune of Rs.453 crores, which qualifies for capital, and as a result the overall capital adequacy inched up from 18% in Q1 to 19.3% despite a healthy growth in assets as of Q2.

I am on Slide #16 of the presentation. In general, on market assessment, we are staring at a multi-year low of 9.7% banking credit growth in first half of the year from estimate standpoint. Overall demand environment is very patchy. The consumption is not fully entrenched as yet. If you see Auto sales, Two Wheeler and PV there is improvement in trend, but it is very-very patchy. Consumer Electronics also since August 15 the overall demand outlook has improved. Passenger Cars year-on-year growth for first half is 12.5%, Two Wheeler is at 19% and Commercial Vehicles continue to de-grow by 10%; however, there is some improvement in Heavy Commercial Vehicles in Q2. Real Estate I think it is seeing its lowest ever. My assessment it is a bottom that we are seeing in the last 13-14-years because of reasonably hawkish interest rate environment over the last 2-years, the overall inventory is very high, the demand is soft, new launches are quite less. On the other hand, the industry remains in hyper competitive mode from a pricing standpoint because of slow wholesale growth for banks. In unsecured lending over the last one quarter I would say we have started to see a pickup in momentum from foreign and private banks.

Overall, we have given data here, I mean, there is commentary that is there. I think pretty strong momentum across Consumer Durables, Lifestyle business is now virtually getting to clock 30,000 customers in a quarter, it is a business we invested out 3-years ago and I had said that we see it as a business which could be as large as Consumer Durable business in the next 5-years, I think it is beginning to look that way. We are quite confident next year this business alone could give us half a million customers from a trend line standpoint. Cross sell momentum across lending and fee products remain very-very strong, both General Insurance distribution, Life Insurance distribution, Ratings distribution remain pretty strong. Personal Loans business continues to grow in a very stable manner. Rural Lending – we are clearly tracking ahead of plan; we disbursed Rs.93 crores in the current quarter. We are present in 31 towns and 150 villages nearby of those towns. We have built in the last 2-years a multi-product lending distribution model. We have now started to leverage the entire infrastructure and the work that has been done. We are now beginning to work on launching MSME Rural Lending by April 2015 in the same locations as well. The 31 branches that we have today will go up to 50 branches in the next 9-months time. So cost steady, infrastructure roll out and growth is what you are going to continue to see in our rural foray as we go forward from here. Business Loans to SMEs continue to grow very strongly. The Professional business which we started to build out 3-years ago is now contributing to 15%. We have now separated that business from our SME Business Loans and converted into a separate business and we are quite bullish that this itself could go into a very large business in the next 3 to 5-years time. Loan against Shares – there was a regulatory change in the business. As a result for those who are not focused on margin lending which we have never been it has helped those who are not in margin lending business, so we were a beneficiary, we are quite bullish on the business, and growing it in a very steady manner. Construction Equipment we shared in Q1, we have decided to wind down the business; the business is clearly in a remedial mode, the overall portfolio is down to less than 1% of the overall portfolio at just about Rs.300 crores it will fully wind down by September 2015 for us as a company. Commercial Infra continue to de-grow. We have not done any lending over the last 2-years. As I mentioned one Infra account slipped into an NPA. This account had gone into CDR in 2012 and we are working with the consortium on remedial action on the account. Our Auto Component Financing business continues to grow well. FD – we closed the quarter with close to Rs.450 crores; it is now contributing to 2% of our borrowing. As I have said in the next 3-years we foresee this could be 10% to 11% of our overall borrowing. We have now started to work on building a Wealth Management business around our anchor FD product. As I mentioned we raised Tier-2 capital. On Awards and Recognitions, in second quarter, our IG Officer got COO 100 Award for our 360degree One Customer View project that we had launched 2-years ago. That is really the quarter; overall a stable quarter and watching with basis that the next 15-20 days which will determine how the balance of the year moves as the entire consumption gets played out from Navratra till 25th of October. Over to questions.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have first question from the line of Prakhar Aggarwal from Edelweiss Securities. Please go ahead.

Nilesh: This is Nilesh. Just wanted to kind of get your strategy around the Housing Finance entity that we have started so just wanted to get your thoughts on that, what is the game plan there, and what is the kind of book that we have intent to build up there?

Rajeev Jain: Out of Rs.28,000 crores the Mortgage business is around Rs.13,500 crores. We have been in this business for long. We started with Loan against Property. We got the highest ROE followed by Self-Employed Home Loans followed by Self-Employed Salaried, in between we also launched Lease Rental Discounting. So we offer a full suite. We do not do Developer Financing at this point in time, but we do developer LRDs. We think the business had reached inflection point in the size and scale where we could support it with a separate Housing Finance company. The benefit that we would get is clearly SARFAESI, which as a non-bank we will not get, which would enable us to grow this business into a much larger business over years. If we had got a banking license we would have got SARFAESI, as a result, any which ways since there is no visibility in banking license at this point in time until the new regulations come and the whole process restarts, we thought it is prudent to apply for HFC and get SARFAESI and build out the incremental mortgage business there. It will be 100% subsidiary. So there will be no….

Nilesh: Once the entity comes on board all the Housing Finance, I mean, related business gets booked in that and the standalone entity if this focuses on the other part of the business, is that correct?

Rajeev Jain: As an end result, yes. First, we will book incremental assets and then over a period of time as this book weans down you will largely see Mortgage business there which means we will be able to clearly separate, that will have higher gearing, that will get NHB refinancing, that will get SARFAESI. So higher beta lower beta will get separated very-very clearly structurally as well, which will allow some to have a little higher gearing than the other.

Nilesh: So the existing book will remain with the standalone entity?

Rajeev Jain: Yes, that is the thought process at this point in time but we will cross this bridge as we go forward.

Moderator: Thank you. We have next question from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma: Just on the trend of strong AUM growth but little sort of a tepid bottom line, when do you see this sort of a trend sort of a normalizing and what is your outlook on the AUM growth, in the first half we have been quite aggressive given the guidance we were maintaining earlier, just some color on that?

Rajeev Jain: Clearly as I had said in the beginning of the year you will see this readjustment play out for the current full fiscal. You will see balance sheet growth and profit growth start to look much more closer from next year onwards, that is point #1. Point #2, I think so far we have grown 41% assets under management. I would say on a full year it is 34-35% yes I think we would be able to grow. Would we be able to grow 18 to 20%? First half growth is 19%, but I must qualify that I think the next 20 days are very critical; clearly, the whole Two Wheeler and Consumer Durable are big drivers from a profitability standpoint and 25% of the sales happen between Navratra till 27th of October. So far I think the demand outlook seems strong, but we will have to just wait for it to entrench itself better over the next 15 days and we will have far greater confidence in guidance I would say.

Ashish Sharma: Second would be on the capital requirements. We have raised Tier-2 capital. Any plans to raise equity in FY-'15?

Rajeev Jain: 1st quarter is when we would require is what we had said prior to raising Tier-2, hence, we will stay with that. The purpose of raising Tier-2 was not so much for capital because we were at 18% ending Q1, we would have gone down 17.25% in Q2. Our purpose of Tier-2 is largely to manage our ALM, that is the primary reason. We do understand that it allows us to gear as well, so that is understood. I think we will remain with next year a corridor of Q1 it could be Q2 fiscal. Between Q1 and Q2 we will raise.

Ashish Sharma: And just lastly, Rajeev, just from an understanding perspective, the EMI Card the number which is given in the presentation, just from a differentiation point of view how it is different from the credit card of banks, can a customer use that on a online platform or not, just from a information?

Rajeev Jain: No, it is a dumb plastic, if I was to use the word, it is an existing member identification card, it does not touch the payments and settlement systems in any given manner and that is why it is not a credit card. The key dimension of a credit card is when it touches the payment and settlement system, and as a result rides on the Visa or Master network. This allows you to take a loan in 7000 points-of-sale across 146 cities. That is really what it does. It identifies the customer instantly. The earlier KYC and the risk models allow him to borrow instantly versus having to go through 9 yards of a borrowing cycle.

Ashish Sharma: So on an online platform it is sort of a redundant, you need to sort of innovate it?

Rajeev Jain: If you came to our online platform and applied for a loan instantly you would get it instantly. So on a closed loop basis does it helps you engage with Bajaj Finance much more seamlessly, the answer is 'Yes.'

Moderator: Thank you. We have next question from the line of Sachin Shah from Emkay Investments. Please go ahead.

Sachin Shah: I just had a couple of questions; one is that in the last couple of calls what I understood was that in your Consumer space your yields are close to about 24% and your cost is about 9.5%, which means the spread is about roughly 15%-odd, and for SME and commercial space your yields are at about 15%. So does this still stand true even right now and as we are seeing?

Rajeev Jain: That is correct. There is some margin pressure in Loan Against Property in the Home Loans business very clearly. If I look at structurally year-on-year the decline in NIMs by 12-13% in the Loan against Property business.

Sachin Shah: So that is the reason why we are seeing the spread compression much…?

Rajeev Jain: Sequentially you always see a drop, as a result of product mix, that is one. Two, in the SME businesses which has largely contributed by mortgages, that is clearly margin pressure.

Sachin Shah: Yeah because when I see y-o-y your margins are almost 130 bps whereas the business mix has not really changed much?

Rajeev Jain: Mix has changed. In the same time if you go to the presentation of ours and let us say Two Wheeler and Three Wheeler Financing the AUM itself is down 5%, the volumes are down 15%, large part of income comes also front ended on volumes. Also, important point – last year we had just raised capital in March we were "from a profitability standpoint" we were sitting on 22% capital adequacy.

Sachin Shah: Right, but when I am looking at just a spread….

Rajeev Jain: No-no, spread is directly attributable, right, that equity cost to the shareholders does not cost to the business.

Sachin Shah: So that for the NIM I agree, but if I just look at pure yield in the cost of borrowing, it would not matter right?

Rajeev Jain: That is a valid point.

Sachin Shah: So basically we are seeing some yield pressures as you are seeing on the Housing side of the book, right?

Rajeev Jain: That is correct…

Sachin Shah: And going forward, you will see that continuing?

Rajeev Jain: Once the corporate demand comes back, I mean, all those who are doing mortgages know they should not do it at these rates, I mean, if SBI is doing 10:10 and he is giving me money at 10, 1000 crore at 10 you know 30 lakh loans for 1000 crores distributed in a decentralized manner at 10:10 does not add up, they do it, but when you are looking at a credit growth of 10% that too supported by all this, then that tells you how bad the corporate demand of credit is.

Sachin Shah: As a follow up to that question itself because the credit growth is so low, do you see the bulk rates coming down and that should help your cost of borrowing?

Rajeev Jain: There is some easing in rates but not too substantial. So two points – we as a company have never taken liquidity risk, so our asset/liabilities are reasonably matched, we never do short we have always gone long form a ALM standpoint. By the time it plays out if the interest rates were to soften substantially it will still be 2 to 3 quarters.

Sachin Shah: So you do not see 25-50 bps savings in your cost of borrowings in the next couple of quarters or so?

Rajeev Jain: Let me say there is only 15-16% of the balance sheet gets re-priced on the borrowing side quickly, rest of it some of it would take 9-months, some of it would take much longer time.

Moderator: Thank you. Next question is from the line of Sneha Ganatra from Subhkam Ventures. Please go ahead.

Sneha Ganatra: Could you share me the outstanding borrowing figure as on date and mix?

Rajeev Jain: Rs.23,000 crores. Mix – they are in the presentation; it is 53% from banks, 45% from bond markets and 2% from FD.

Sneha Ganatra: What is the outlook on the asset quality front as well as the account has been slipped into the NPA infrastructure apart from this?

Rajeev Jain: I think it is edgy I would say. "Do we foresee any large account flowing?" The answer is no at this point in time. But, "is there a nervousness in general if the economic environment does not pick up?" The answer would be 'yes'. The answer to that is only economy has to kick start again. I think it has been in dumb so long.

Sneha Ganatra: And any changes is expected in the borrowing mix or it would be continuing…?

Rajeev Jain: No, 52-48 that is where it will remain, it has been so now for very-very long.

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

Nischint Chawathe: On the Consumer Durable business we reported almost 53% growth in AUMs. Just wanted to get a sense what would be the trajectory going forward; A) Have we been gaining market share? And B) Given the fact that there is shift to buying online how do you look at the business going forward? I guess you have some plans to kind of tap that opportunity, but would you have a situation next year where again possibly the Consumer Durable business may not be able to grow in line with the Business Loan segment and then again you would have a difference between the Loan growth and the earnings growth?

Rajeev Jain: So 2-3 things – even in the current year Nischint, if it was not for strong growth in Digital products the growth would not have been this strong. That is one. Digital, geographic expansion, I think, continued investments and capabilities. I think the Lifestyle business is starting to be meaningful and given it is a low base as I said earlier in the call I foresee that itself could be a half million accounts. Its drivers are very similar to that of Consumer Durable business. So I think so far we are confident we have got a reasonably strong momentum. The trigger however to the point that you made and we could go out and reguide next year if the Two Wheeler business by then does not come back. Two Wheeler business as you said decline is around 15%, it is a AR-based business, high margin business in general, and it is down 5% on assets. We do not have a great guidance on it for the second half of the year as well. Between the two even if one carried the candle the other did not we will have pressure on margins is the point I would want to place. When both start to move you will see us move forward far more strongly on net income growth. So I think that is something that I want to play card probably.

Nischint Chawathe: Just to re-clarify you follow a 90-day NPA recognition norm…?

Pankaj Thadani: Provisions are at 90-days but NPA recognition is as per RBI lines at 180-days.

Nischint Chawathe: If you could give any sense as to where the ratio would kind of optically move up if you….

Rajeev Jain: 1.41% could go up to around 1.85 to 1.9% and net NPA will move from 48 to 60 basis points.

Nischint Chawathe: But from an earnings point of view there would absolutely be no difference?

Rajeev Jain: Yeah, there is no impact. What Pankaj said is also right, what we say consistently is also right. So if RBI came out with 90-day provisioning I think I do want to however qualify just in Mortgage business we do provisioning at 120-day, there will be a marginal impact of let us say for a moment Rs.2 or 3 crores, otherwise all our businesses are on 90-days. So there will be no impact on P&L yes, other than as I said non-material impact on P&L.

Moderator: Thank you. Next question is from the line of Adesh Mehta from Ambit Capital. Please go ahead.

Adesh Mehta: Sir your 'Investor Presentation' highlights that we have grown our distribution on Consumer Durable segment and Lifestyle segment meaningfully. So sir, would we have a person stationed over there or would the loan origination be done by the dealer, how does it work, sir?

Rajeev Jain: There are people not in all 8,000. If you go to Slide #13, in Consumer Durable, in all 6,000, we have a person stationed. We require minimum 100 accounts to station a person. So out of 2,000 we have a person in 1,000 stores and he is mapped for another 1,000. In ASCs 2,500 places, we have people in all. So technically they have 9,000 people in point-of-sale across the country.

Adesh Mehta: So across the country we have around 9,000 people on point-of-sale. What could be the average salary of each person?

Rajeev Jain: Each person the average fixed salary would be around Rs.12,000-13,000 and blended including incentives and everything would be Rs.20,000.

Adesh Mehta: Sir, how are we engaging with online platforms like Flipkart and Amazon?

Rajeev Jain: We were responding that to Nischint. So we have taken a decision to carve out under our President, Consumer business a separate e-Commerce vertical. We are building a strategy out. I am sorry, Nischint, I forgot to mention that. We believe while we are digitally savvy online needs different orientation versus offline. So we have created an e-Commerce head who will work for our President, Consumer business and build out a strategy in the next four-five months time, it is an integrated strategy that we are working on which will bring to table our trade advance capabilities, our retailer finance capabilities, our integration capabilities, our EMI card capabilities, all of it together and help us partner with leading online companies to push their 15,000 plus rupee products to help them stimulated.

Adesh Mehta: If I were to go back to my earlier question, if we have around 9,000 employees, how much would be on-role and how much would be off-role?

Rajeev Jain: None of these people work for us. They work for a staffing company in the group called Bajaj Allianz Staffing Solutions.

Adesh Mehta: And which you are proposing to buy from the holding company?

Rajeev Jain: That is a separate company; that is Bajaj Financial Solutions, that is a shell company, that used to be housing our wealth Management business which we rolled into Bajaj Finance 18 months ago. This is a Staffing Solutions company which has 5,000-6,000 people from Bajaj Allianz Life and General and another 7,000 people from us.

Adesh Mehta: What are our expectations from the RBI on the new NBFC guidelines and how are we preparing for it? They are expected this month sir.

Rajeev Jain: What I do not know about I cannot prepare for. I have read the monetary policy; it says "Asset Classification, Provisioning and Capital." I think we are strong in all three. Customer advocacy – we are pretty strong in I would say. These are the four areas that I read from the monetary policy. We think we are reasonably robust in all the four areas and we think all these four areas would help make the non-bank sector stronger.

Moderator: Thank you. The next question is from the line of Abhishek Agarwal from HDFC Life Insurance. Please go ahead.

Abhishek Agarwal: Wanted to understand, is there any RBI direction with regard to sharing of customer profile data with bureaus for NBFC?

Rajeev Jain: Yeah, we are amongst the largest subscribers. With bureau we have been sharing; 100% of the data that is shared with CIBIL and with Equifax on a monthly basis.

Abhishek Agarwal: My question is if only you are subscribing to the data from credit bureau you need to share the data or otherwise also there is a mandate to share the data?

Rajeev Jain: We are the largest customers of CIBIL in India today between HDFC and all that, each one of us. And clearly, we can access that information and the data if we provide our 7 million customers to them, which we provide on a monthly basis.

Abhishek Agarwal: If you are not a customer to credit bureau, till you are required to provide the customer profile data?

Rajeev Jain: "Even if I am not using it, am I required to provide?" The answer is yes.

Moderator: Thank you. The next question is from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.

Sachin Kasera This is Sachin Kasera here. Just wanted a number from the Consumer Durable side. So can you highlight some key points – what has driven these again a lot of market share gains which category has driven these?

Rajeev Jain: It has been a rounded growth; 667,000 customers there and Lifestyle another 82,000, so virtually 750,000 customers in Q2, contributed by Digital, contributed by extended summer, contributed by geographic expansion, I think all these continued investments in distribution expansion. Today, in the Digital space, we are virtually working with all large national and regional chains. We cracked Samsung in Q1. That is a big contributor as well. So, I think the teams are doing fantastic amount of work in 360 deg. to be able to deliver this level of outcome.

Sachin Kasera: So a large part of the growth can be attributed to market share expansion?

Rajeev Jain: It is a lateral demand product, right. You walk into a store and you are told there is no interest and get the loan in three minutes. And you ask again, and you are told no interest. **___ 37:13 (technical difficulty)**. We have just launched the new 'Mobile App' that allows you to not even leave home, know your loans and walk into a store. Less than 10 days of launch, we have approved 3,000 customers. So I think these kind of capabilities are helping us continue to deepen and widen our franchise.

Sachin Kasera: Just a follow up on that; sir, two things – one, in the initial last 10-15 days of the festive season what has been the trend; and secondly, is now mobile a very large contributor to the Consumer Durable business?

Rajeev Jain: Mobile – out of 667,000 customers would be around 75,000 customers, and out of 84,000 customers, there will be another 40,000 customers, so it will be around 150,000 customers, so 50,000 accounts out of 750,000. Since Navratra to-date I would say it has been pretty reasonably strong, but the next 10 days are very critical. Last year on Dhanteras day we originated 50,000 applications. So now that has to get to whatever it has to get to.

Sachin Kasera: When you are suggesting it will be reasonably strong, is it for Bajaj Finance as a company or the market as a whole?

Rajeev Jain: In general the momentum even with dealers have been strong is what we understand.

Sachin Kasera: So added to that your market share expansion would be doubly better for the company?

Rajeev Jain: That is correct.

Moderator: Thank you. The next question is from the line of Umang Shah from CIMB. Please go ahead.

Umang Shah: I had a question on two points – one is the Infra account that we discussed. Is there any interest income which has been derecognized in the current quarter?

Rajeev Jain: No, we have not been recognized income since the account went into an NPA which is 90 days. So there is no derecognition that we have done in the current quarter.

Umang Shah: I have got a bit confused, so is it that the income got…?

Rajeev Jain: There is no reversal of interest in the current quarter, because we were not accruing it itself post it slipped into 90 days.

Umang Shah: If you could share what would be the quantum of provisions against this asset?

Rajeev Jain: That is why the slippage is higher in net NPA, because the coverage would be less than 12-13%. We are hopeful that it is a corporate account and overall debt of the company is close to Rs.1300 crores that we should be able to find a remedial path to it and not lose all the money, we have Rs.50 crores exposure, large one sitting there, let us see.

Umang Shah: My second question was related to margin. In line with what you have been guiding that for the past three years obviously as the loan mix is changing and obviously a lot of seasonalities, although it is a part of the business, but the volatilities kind of coming down. Evening out that is it fair to assume that we are more or less coming closer to the margins, because the curve has been trending down, so the margins should stabilize that anything between 10-12% including the seasonality?

Rajeev Jain: Yes, that is our intent and that is a direction.

Umang Shah: So incrementally probably we should not be seeing margins going substantially down from current levels?

Rajeev Jain: Yes.

Umang Shah: On the Infra business, earlier you mentioned, the focus of the management is very clear to exit construction equipment. On Infrastructure Financing business, is there any formal strategy being worked out or some guidance on that?

Rajeev Jain: No, we do not foresee any incremental lending for the next I would say 24-36 months. The cycle is going to take a long time to play out. We do not have the stomach for it.

Umang Shah: But we still do not formally call it quit?

Rajeev Jain: Yeah, we are not calling it quit; we may take that call as well in the next three to four quarters. To the point that you are making, we have been in a pause mode now for the last two years and given where things are at this point in time it is looking like good two years from now is when the cycle may revive. I do not think the industry itself has seen all the CDR that need to happen, let me say that right now. At least five companies that I can name who are in Infrastructure space, who’s applications are in the CDR cell. And the longer it takes more people will flow into it. Even the good guys will start to flow into it. So clearly we do not foresee revival, and as a result we do not foresee us getting back into the business. We will however on the other hand build out new commercial lending verticals for which we are starting to plan which have structural long term. The cycle seems to be sitting from where we are seems to be a long term cycle. So you will see us launch one or two commercial lending verticals along with our Auto Component business cum Financing business in the next 12 to 15 months time.

Umang Shah: On the Consumer Durable business, the first speed that we saw last year from Credit Cards, this time around we are seeing smaller NBFCs kind of getting some space into the departmental stores and stuff like that. So are you seeing that the competition in this business too is increasing? And are you seeing any kind of undercutting or something?

Rajeev Jain: Not as yet, but "can it happen?", yes, it can happen. That is why the focus would be despite being in a dominant position we do not want to slow down our pace of capability enhancements. So as I said we launched a mobile app, we are continuing to deepen geographic expansion, we are continuing to launch new ways of doing business, new categories. We continue to want to dominate and there is enough market for many more people in this space, as long as they have the stomach to do all the heavy lifting that these businesses demand.

Moderator: Thank you. The next question is from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal: Sir, do you book interest income for launch which are delinquent between 90 to 180-day bucket?

Pankaj Thadani: Yes, we do.

Pankaj Agarwal: So if that is the case, let us say we start recognizing NPAs at 90 days, would it not impact your interest income?

Rajeev Jain: No, it would not make a material difference, that is all.

Moderator: Thank you. The next question is from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.

Rahul Bhangadia: My question was on the Personal Loan front. What would be our average yield on that portfolio, because the presentation mentioned the range is pretty wide; 14 to 35%?

Rajeev Jain: Because there is cross sell business in rural markets, Tier-3 markets, Tier-2 markets, Tier-1 markets and top 2,000 companies, I think it shuttles across. In top 1,000 companies somebody earning 11 lakhs and above, the IRR could be as low as 14.5%. And to a cross sell customer with no bureau record, it could be 32%.

Rahul Bhangadia: So what would be our average yield approximately on this Personal, because now it is a…?

Rajeev Jain: If you look at they were a separate business, we do not look at them as one business. We have Affluent Personal Loans, HTS Personal Loans, MTS Personal Loans, HCS Personal Loans. We have four personal loans where we look at them because the drivers of each one of them are very different. The loan loss, the pricing, the cost, which is OPEX, they are all very different. It would not be prudent to put as one's package.

Rahul Bhangadia: Secondly, on this a couple of segments, SME cross sell and Loan Against Securities, there has been a significant growth.

Rajeev Jain: Just to give you an example, on a 14.5% Personal Loan business, the loss rate would be below 40 basis points. So it differs.

Rahul Bhangadia: Sir, on the Loan Against Securities, you mentioned that there is some regulatory changes. So that has been the key reason why we have seen such a sharp growth in the segment?

Rajeev Jain: No, I think there was a leadership change as well in the company, the new business managers come on board, has really reenergized the business. As they say, two-parts hard work, one-part luck type. So I think he got two-parts hard work and one-part luck. He has reenergized the business and the regulatory environment is helping him. We think it is a great move by the regulator; it will help create long-term market for serious lenders in this space.

Rahul Bhangadia: So you think you can have strong work in the coming quarters also in this part of the….?

Rajeev Jain: We think so.

Moderator: Thank you. The next question is from the line of Parin Gala from Gandhi Securities. Please go ahead.

Parin Gala: In the last quarter concall you have mentioned that you would share some slide on how the new investments in the business have done. I have not seen any change in the presentation. So…?

Rajeev Jain: Sandeep can share with you separately. It is a miss. We will share next quarter onwards. Yes, I agree with you.

Parin Gala: Next question is also again in the last quarter that you mentioned that you were in the process of reengineering cost optimization and all. So where are we on that and what kind of savings are we now talking about, if you can just throw some light on that?

Rajeev Jain: It is a very large project. It will help us one, drop cost; two, improve our velocity across all our lines of businesses. We have been for the last 6-7 months. You can start to expect now, but when we got into it we did not know it was that large. I think you will start to see benefits flowing from it from next fiscal onwards. We are putting a lot of dollars behind a lot of automation. As I said, one, it will drop cost, it is helping us streamline our processes, and thirdly, as a result, we foresee velocity will gain dramatic momentum. The cost savings that you are talking about are not about velocity gaining momentum, it is about real cost being taken out. So, the overall plan is ready, we are now going into execution from a change in terms of technology and in terms of the way our operations is organized. By April we should be able to go live on at least some of the key businesses. Having said that if you would ask me by when the full build out be done I think it will be 12 months from now.

Parin Gala: What I am trying to understand is when you say you are going to save a lot of cost, but when you say you are putting technological changes and all that, so are you investing in new technologies as well, is money going right now in that, eventually the cost going forward?

Rajeev Jain: Not in the current financial, so nothing baked in the current financial, but you will see some impact of it in Q3 and Q4, but, it will not be material in nature, in that sense is what I would say.

Parin Gala: Just on the Rural Lending business, has the business started breaking even?

Rajeev Jain: Yes, it is profitable right now.

Moderator: Thank you. The next question is from the line of Ashwini Iyer from Siddhesh Capital. Please go ahead.

Ashwini Iyer: I just wanted to understand a little about your Digital products, the one that you have launched online during the quarter. So how it helped to increase the business and has it impacted the cost?

Rajeev Jain: We have been investing in taking all our products online. Today, we offer Personal Loans; Affluent Personal Loans online; it is contributing to 15% of a new; we offer Home Loans online; contribution is very small; just the exit of Q1 we launched Business Loans online, that is now contributing to 1% already; Home Loans went live in early August; our Loan Against Securities we offer but we are launching a completely new version by 15th of November. First step is to take all our products online which is from a desktop or a laptop. Next step would be to take it to mobile. We cannot overthrow offline process into online. A level of effort is substantial. We are taking it product-by-product. And we think all these could contribute 8-10% in the next 2-3 years time for us as a company.

Ashwini Iyer: Of your overall AUM?

Rajeev Jain: Not AUM, new disbursements, and an over a period of time, AUM as well.

Ashwini Iyer: How much of reduction in the cost do you expect because of these businesses going online?

Rajeev Jain: 8-10% contribution level of saving, but it is about continuing to be oriented towards next generation builds. Customer is comfortably doing, it is very clear to us. That being the case, we better start to invest in that direction.

Moderator: Thank you. The next question is from the line of Sandeep Jain from Sundaram Mutual Fund. Please go ahead.

Sandeep Jain: Wanted to know about the other businesses like Wealth Management Services and Distribution Services, where we are and how we are planning to ramp this up?

Rajeev Jain: Clearly, FD anchor product that we launch in January this year we just crossed Rs.500 crores AUM, there are three channels which are work-in progress at this point in time across RM channel, there is a tele RM channel, and there is a IFA channel. There is work on in all the three areas. You should expect to hear from us sometime by end of fourth quarter on us going live on all these four channels for us as a company. There will be multi-product channels, they will distribute both wealth and asset products, and we are working I would say very hard to launch all three of them in the next 6 months. So next year should be a big year for the overall Wealth Management Distribution business.

Sandeep Jain: So right now we have a Rs.500 crores of AUM?

Rajeev Jain: That is correct which is growing by Rs.40-50 crores per month-on-month. We have just launched a "Corporate Liabilities Channel" which is focusing on the non-bond market subscribers. This Rs.500 crores AUM is largely coming from Retail, average FD value is around Rs.3 lakhs, average channel is around 20-23 months. There are a set of 500 companies who have substantial cash in their balance sheet which do not invest in bond markets. So, we are taking through our corporate RM, we are taking our CP and FD products to them. So that is a second thing. And we are investing in these three channels and we should be ready by April 1 to launch them.

Sandeep Jain: How much in our budgeting or how much AUM we are expecting say by the end of FY15 or '16?

Rajeev Jain: Our focus is on creating products and capabilities. I think the volume is an outcome.

Sandeep Jain: This standalone business is profitable right now?

Rajeev Jain: We do not have a standalone business in a way, right, I mean, FD channel, there is a cost of drag, clearly, it is the cost of FD plus the channel we have invested in. "Is it burning money?" The answer is 'yes', it is burning money. So it is not profitable.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand over the conference back to Mr. Karan Uberoi for his closing remarks. Over to you, sir.

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

Rajeev Jain: Thank you very much.

Moderator: Thank you very much, sir. On behalf of JM Financial Institutional Securities Private Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines.