“Bajaj Finance
Q2 FY2020 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Bajaj Finance Q2 FY2020 Earnings Conference Call hosted by JM Financial Institutional. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Karan Singh from JM Financial. Thank you and over to you!

Karan Singh: Thank you. Good evening everybody and welcome to Bajaj Finance's earnings call to discuss the Q2 FY2020 results. To discuss the results, we have on the call Mr. Rajeev Jain who is the Managing Director, Mr. Sandeep Jain, who is Chief Financial Officer, Mr. Atul Jain, who is CEO, Bajaj Housing Finance, Mr. Anup Saha, who is President (Consumer Business), Mr. Deepak Bagati, who is President SME & Collections and Mr. Ashish Panchal, who is President Rural, Business, Insurance and Liabilities. 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. Good evening to you all. I will be referring to the investor presentation that we have uploaded on our website. Let me quickly take you to Panel 4 and 5. These essentially capture the quarter in an essence. We remain focused on all three dimensions of growth, profitability and sustainability in the current quarter. Assets grew by 38% to Rs.1,35,533 Crores. New loans booked grew by 23% to 6.47MM. Overall, Q2 in terms of loan growth was slower than Q1 given the general demand slowdown on one side and cautious view of risk on the other side. Q1 accounts growth was 29% and it came down to 23% in Q2 as I said, poorer outlook from a demand standpoint on one hand and our cautious risk view on the other hand.

Overall, the growth was pretty granular. Our sales finance business grew 19% versus 24% in Q1, B2C grew 46% versus 48% in Q1, rural B2B grew 35% Versus 48% in Q1, SME grew 34% versus 36% in Q1, mortgages grew 43% versus 45% in Q1, auto finance grew 61% versus 62%, commercial lending grew 18% same as Q1 and so on and so forth. So, it is a pretty granular growth between two quarters, sequential as well. Pretty narrow range in which both have moved so it is pretty granular growth from a balance sheet standpoint.

On new customer acquisition, we acquired 1.92 million customers. Overall franchise is just a tad below 39 million now. Existing customer share was 70% of the loans whereas existing customers in Q1 was 66%. In general, our long-term view is 72% - 74% of the loans eventually in a medium-term horizon should come from existing customers as they are better risk customers. But given our cautious stand and whenever we have to manage risk better, the right way to do is to reduce new customer acquisition so it is more by design rather than by anything else that 70% of the loans in Q2 were existing customers and 30% were new customers. We added 102 locations, taking us just to a tad below 2,000 locations. We will add another between 160 to 200 locations in balance second half of the year as well.

Cost of funds continue to go down given surplus liquidity in the banking system in general. Versus 8.49% in Q1 we came down to 8.38% in terms of cost of funds. It could fundamentally still be lower if not for the overhang that we are continuing to carry in the balance sheet in terms of cash. As of September 30, 2019, we stood at Rs. 8,000 Crores of cash. As of today, actually, we are sitting on Rs.10,000 Crores of cash and cash equivalents. It does create a cost of carry, but given the environment that is probably in our internal ALCO assessment is the right thing to do. Through ECB we raised at a pretty attractive price, raised at 7.9%, all-in cost from a 3-year fully hedged facility standpoint. We have also taken a Board approval today to go and seek approval from RBI to raise another $ 700 million in balance half of the year, subject to RBI approval.

Deposits book continue to grow well. Both ECB and deposits are creating significant amount of diversification on liability profile for us as a company. It grew 60% on a year-on-year consolidated basis; 15% of the liability profile is now retail and corporate deposits. Rs. 10,500 Crores of this is retail and Rs. 7,000 Crores is wholesale approximately.

Focus on fees and commission remains steady Same grew by 66%. The differential mainly contributed by three core lines which is credit card fees, penal fees and other fee lines like financial fitness report, convenience fee, etc.

Loan losses were higher, in general, what it has been so for the past few quarters, in line with Q1. Overall number grew by 89% in Q2. Stage 3 asset from loan loss and provisions grew by 80% in Q2. The way in terms of credit cost it is looking more like FY2017, which was a demonetization year. Our credit cost in that year came in at 162 basis points. If you add ECL to it, fundamentally, you would add anywhere between 12 to 14 basis points depending on which portfolios are slipping so the number is likely to, on a full-year basis, look like 175 to 178 basis points. That is really how our outlook at this point in time is on credit cost for the year. Does not change the operating metrics, does not change the earnings profile of the company and given the cuts that we are taking by tightening underwriting standards, we should start to see reduction by fourth quarter or the first quarter of next year.

Opex to NIM continued to improve, came down further sequentially and on a year-on-year basis came down from 35.5% to 34.5%. Overall NIM was strong.

Gross NPA and net NPA, year-on-year, there was a movement because of IL&FS. Sequentially, they were flat. As a result of the tax cut, adjusted for DTA, profits before tax for the quarter grew 41%, they grew 43% in Q1. Consolidated profit for the quarter post-tax grew by 63% to Rs. 1,506 Crores.

Return on equity as a result of the tax cut is looking very strong. Annualized return on equity is 28%.

On Capital adequacy, we actually added to the capital in Q2. Tier 1 capital in Q1 was 15.48%. In Q2 we have come in at 15.86%. There was accretion to the capital in terms of the core Tier 1 capital in Q2. We have got the Board approval to raise capital as everybody is aware. Standard assets provisioning was steady between 87 and 91 basis points.

BHFL continues to grow well. It delivered a profit after tax of Rs.130 Crores, pretty solid and steady growth, Bajaj Financial Securities has started its operations and if you are happy to become our customers, open a demat account and start access to our broking services.

That is really quarter in general. There are detailed slides ahead. I think what I would do is to open up for questions and try and refer to the slides based on the questions.

Moderator: Thank you very much. The first question is from the line of Divyesh Mehta from Investec Capital. Please go ahead.

Divyesh Mehta: Can you give us some clarity regarding the write-offs in the last two quarters?

Rajeev Jain: Write-off is referred in the presentation on Panel 40 ,if you see the write-off, it represents the last five quarters of write-off. September'18 was Rs.150 Crores, December'18 is Rs.285 Crores, Mar'19 to Rs.270 Crores, Jun'19 to Rs.196 Crores and Sep'19 to Rs.293 Crores so it continues to move between Rs.275 Crores - Rs.280 Crores . A smaller part of the write-off is actual write-off. We generally sell down the portfolio based on the NPV of the portfolio as to rather than recovering from it, we would rather sell down to an asset reconstruction company and so as you can see on Panel 40, there is a Rs.13 Crores of recovery from realization on sale of NPA and has been entirely realized here.

Divyesh Mehta: Okay. Can you give me some clarity regarding just write-offs, which segment contributes a major chunk of it?

Rajeev Jain: No. These are spread across customers. These are, in general, written-off consumer portfolios. In general, out of Rs.293 Crores, Write-off of Rs.15 Crores out of Rs.293 Crores was mortgages, rest were all consumer & SME portfolios.

Divyesh Mehta: Okay. One last final question if you go to new Bajaj Finance customers in a new loans book, both of them have, as you said already, declined the growth on a Y-o-Y basis. This is only due to you being more cautious or is there any competition scenario playing out here because on the ground level many of the banks have also started promoting their activities aggressively?

Rajeev Jain: They have been promoting for a while so it is not new. As you can see, the data here on Panel 25 is last six quarters. During these six quarters on an average, we have added 12 million new customers so as I said the company is now in 1997 towns in India, most of the competitive activities are in top 25 - 30 towns in India in point-of-sale businesses, so it is driven by our cautious view on the business.

Divyesh Mehta: Okay one last final question if you go to the customer franchise slide where you have the triangle, in that there is an overall cross-sell franchise and the nondelinquent customers. Can you give me an explanation regarding what this is and if I would subtract both of them, would I get the delinquent customers? Would it work out?

Rajeev Jain: That fundamentally means if the client could have bounced and we are not willing to do business with him and he is nondelinquent, so client may have bounced, may have paid me fully, but I am not willing to give him any more lending products. I am happy to give him insurance products, wallet products, happy to give him deposit products, but not lending products.

Divyesh Mehta: Okay so the difference between two of them can be taken as delinquent customers, like he has defaulted any one of the time and you would not be lending to him, correct?

Rajeev Jain: Not delinquent, defaulted at some point in time, yes.

Divyesh Mehta: Okay. But now recovered? Okay.

Rajeev Jain: Yes.

Divyesh Mehta: Okay thank you.

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

Kuntal Shah: Again, you surprise us and reconfirm that big and clean is getting bigger. My two questions. Firstly, on the wallet we see a sharp jump from 3.3 million to 11.8 million products, so basically you have migrated a lot of customer on Bajaj Finserv wallet powered by Mobikwik. How does your arrangement with Mobikwik function because they are also offering credit products, so how does it all function and how is the EMI franchise and wallet franchise overlap and how do you transfer?

Rajeev Jain: Eventual intention is that all these 20 million customers, who have EMI card should sit on the wallet because engagement rate, activity rate, activation rate is distinctly better than a physical plastic. So today, in a way, out of 20 million, 11.8 million are sitting, balance 9 million, we are making efforts to onboard on our wallet platform so that is the response to your point number two. On point number one, these are two separate instances. If you go on to the App Store, you will see Mobikwik wallet and you will see Bajaj Finserv Mobikwik wallet. These are two separate instances, fully ring-fenced from each other and have nothing to do with each other. We work with Mobikwik, manage, operate, invest in, add capabilities to Bajaj Finserv Mobikwik wallet. We on a month-on-month basis are moving from the 20 million EMI card franchise, anywhere between 6,00,000 to 7,00,000 customers every month to from EMI card to digitized EMI card/wallet. That is really how the structure or the partnership structure with Mobikwik is organized there.

Kuntal Shah: So Rajeev, at some point of time, we can consider that Bajaj will be launching co-branded wallets and cards with companies with large customers? Like say, a store card for a retailer or a coffee shop or a retailer or some people who do not want to invest in that area, but could piggy ride on the technology and the lending platform of Bajaj.

Rajeev Jain: It is conjecture at this point of time. We will as and when we are ready, we will update all of you.

Kuntal Shah: And secondly, Rajeev, what is the fully hedged cost of ECB borrowing and how does it compare with the local borrowing apart from the diversification and the maturity? Can you throw some color on this?

Rajeev Jain: The bank money, in general, come at 1-year MCLR, which is between 8.15% to 8.25%. This ECB money has come in between 7.90% to 7.95%, this is all in, which is interest payable on maturity. Local currency borrowing, which is NCD in the marketplace, are coming in at between 7.55% to 7.65% so it gives us diversification. It sits right in between bond market borrowing and bank borrowings, and helps us target new pools of liabilities.

Sandeep Jain: Kuntal, this is Sandeep Jain here so the domestic bank borrowings are about 8.30% but the interest is paid on a monthly basis so when you do annualized number, it works out to be 8.5% - 8.55%. Versus that, the ECB money has come in at 7.95% and the interest is payable on an annual basis.

Kuntal Shah: Excellent so Rajeev, just one suggestion, please do consider ADR next time when you raise the fund.

Rajeev Jain: We will tell the Board.

Kuntal Shah: Because it comes with a more disclosure, but I think that the cost of borrowing and cost of equity, both will drop that is just a suggestion and will diversify the investor base as well.

Moderator: Thank you. The next question is from the line of Anuj Gupta from Perfect Value Fund. Please go ahead.

Anuj Gupta: I have got two questions for you. First is, in consumer durable finance, what competitive advantages do we have against someone like HDFC Bank with cost of. This is the first. Another question is, what challenges we see in long run from digital players like Apple Pay, Google Pay or PayTm coming in digital finance?

Rajeev Jain: See the core benefit fundamentally remains with one who is reducing friction, number one; number two, who has risk management understanding; and number three, in the process, who has customers. All these three are, in general, a response to both your questions. If you look at Q2 data of ours, we did 6.5 million loans. Its safe to assume 6 million loans came from point-of-sale. Fundamentally, 70% of those 6 million loans came from existing customers. Existing customers being defined as ready to do business with a line so it is a set of many things, Anuj, that fundamentally create a moat or a heft at the point-of-sale business so 70% conversion demonstrate the heft point. 70% of overall financing market in consumer electronics, we move. This is manufacturer subvention data so from 15% of mobile phones sold in India or 30% of electronics sold in India we move; 15% of smartphones sold in India we move. 8% to 10% of organized furniture market, we move so if we are moving those kind of volumes and velocity in 2,000 cities across millions of customers in a given month, at one level means we have developed ability to reduce friction, manage velocity and the earlier points that I made.

Anuj Gupta: I understand the point of sale thing. If you could throw some light on the digital payment part?

Rajeev Jain: Digital lending is wallet in general, to an earlier question as well or whether it's Google Pay or Apple Pay, wallet is a railroad infrastructure. Gives you velocity of data that becomes a variable or a set of variables for you to build risk model, for which you need to have risk understanding. Apple Pay is not here, they have input data variables emerging as a result of you using the railroad, without having understanding of the risk they need not convert into a proposition on which you would do lending, so they are two different things. Payments platforms need not fully result into a risk business or a lending business. Not that they cannot be, but they are 2 distinct businesses. As long as they are run distinctly for the same consumer, there is an opportunity but to believe that you have the railroad on which you will just do lending, is misplaced.

Anuj Gupta: Okay thank you.

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

Nischint Chawathe: My question actually pertains to the credit cost guidance. You are guiding for around 1.70% - 1.75% basis points of credit cost for the year as compared to around, I think 1.40% last year.

Rajeev Jain: 1.50%.

Nischint Chawathe: 1.50% last year so this is incrementally in the B2B Digital and Lifestyle business and two-wheelers?

Rajeev Jain: It is across. There is marginal movement in general across, but more so in three businesses. In two-wheelers, yes; in digital, yes; and rest is all marginal.

Nischint Chawathe: And the B2C segment broadly look okay for now?

Rajeev Jain: Yes, data is here for you. If you see sequentially, let us take, personal loan cross-sell, March 2019 was at 122 basis points 30-plus, now it is at 155 basis points 30-plus. But more so Nischint let me make a point, as I said earlier, it is looking more like a demon year, which is 2016 - 2017, where credit costs were 161 Bps, in general, if you take aggregate basis of course, it differs by portfolios, on aggregate basis, we will end up provisioning 21% - 22% already, which was not so the case prior to ECL being deployed so if you actually add that number, you will get 280 Bps. So that is really how we are seeing the year play out.

Nischint Chawathe: Sure and do you see further tightening of credits, please?

Rajeev Jain: It is a month at a time Nischint at this point in time, July was okay August was better. September was not so good. October is looking better so the default metrics are volatile at this point in time. I do not know whether a bottom has been formed as yet.

Nischint Chawathe: Sure. The 70% of your loan comes in from existing customers. In terms of percentage of disbursements in value terms, what could this ratio be like?

Rajeev Jain: We do not even compute it. Actually, we do not even compute the existing customer share, except for you guys. We focus on our business. We get to know about it only at the end of the quarter. We do not have it handy.

Nischint Chawathe: No issues, no issues. Just one final commentary if you could give on the festive sales month till date?

Rajeev Jain: Till Navratri was not good. Dusshera onwards it has improved dramatically. I would say significantly, dramatic would be a wrong word because you are all looking for hope. But the way it is next 10 days are very critical till Bhai Dooj, which is next Wednesday. However, I would say the following to you, this quarter will go up till the last ball of the last day. Because the way we have seen in general, whenever Diwali is a little early we fundamentally see a slump after Diwali, but then December picks up much earlier than in general, if Diwali is early November, December picks up by December 20, 2019 - December 21, 2019. In general, when Diwali is late October, then it will pick around December 10, 2019 or December 12, 2019 so I think it will be a last ball, last day play. Given the actions that the government is taking and when it's cascading impact starts to play, we are sitting prepared to seize on that.

Nischint Chawathe: So, we should not get too much carried away by the big numbers reported by the online players?

Rajeev Jain: For online players, you have to read the fine print and see what is their year-on-year growth. It has been very strong for us. We are reasonably large contributor of both. We have contributed reasonably on a year-on-year basis strongly to their sale. But look at their core year-on-year metric, core year-on-year growth are much weaker.

Nischint Chawathe: Okay thanks for the update and all the best.

Moderator: Thank you. The next question is from the line of Adarsh P from Nomura. Please go ahead.

Adarsh P: Very good set of numbers. On the fee, just wanted to understand if you can break up the fee either of this quarter or the first half, what is the fee which is non-linked to any balance sheet credit activity?

Rajeev Jain: Credit cards fees is not linked. Penal fees that we collect from clients is not linked. Insurance that we distribute is not linked. EMI card fee is not linked because I may sell you an EMI card but if you default, it is not linked so these are four lines that are not linked. Other than that, there are set of other services where, let us say, at the point-of-sale you want to increase your loan limit, you can pay a small fees and increase and so on and so forth so there are various lines over the last few years that we have created, which are "not linked" to loan.

Adarsh P: I just wanted to have a proportion of this fees as a percentage of the total fee because that pool is becoming pretty large?

Rajeev Jain: Each of these components, whether you look at credit card revenue, insurance or value-add services or EMI card for the matter and penal income, they are reasonably large in the overall number. So, it is not that one particular number is contributing to the overall growth for the quarter. So, these numbers individually also play a very, very large role in that number.

Adarsh P: And I am just trying to assess, over a 2- year period, what is the addition to the ROA number without actually having a risk-weight consumption? So just trying to get sense of what percentage would it be which really does not eat into capital consumption?

Rajeev Jain: Let me make a different point. There are 19 different lines that contribute to fee line, okay. It comes differently for different businesses. From a disclosure standpoint that is all really we can tell you. So, we are not giving line item by disclosure because we see it as an IPR infrastructure that these are the lines that can get created in a retail business. But overall, as an investor, I would just tell you that we remain quite focused on ensuring that the sustainability of the business model should not be linked to balance sheet. So, fee should grow nonlinear to balance sheet and we have demonstrated that over a few years, and we remain committed to continue to deliver that.

Adarsh P: Perfect. That is helpful. Thanks.

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

Umang Shah: Thanks for the opportunity and congratulations to your team for a good quarter. I just had one question. During this festive season sale, we have seen a lot of cash back being offered by Bajaj Finance as well. What proportion of that is being borne by Bajaj? And how much of it is being borne by the OEM?

Rajeev Jain: OEM is not bearing anything. So, these are different structures by geography, by retailer, by better customers. We are investing very deep in existing customers and so these promotions are being created to fend off competitive activity, to attract footfall into the store is really what the motive is. Manufacturer does not bear anything. If at all, at times, part of it can be borne by the retailer.

Umang Shah: Okay. So, it has to be netted off from your product IRR and from the OEM standpoint, it is just a subvention that he shares with you?

Rajeev Jain: Yes. There is a phase in promotion expense line for every festival season that we invest in to generate velocity. Would it be stronger this year than it was in prior years because of the tax cut benefit that has emerged? The answer is yes, but that is all.

Umang Shah: Okay, understand. And just my second question was related to the tax cut. What proportion of the benefit you think you would be able to retain, let us say, from a two to three year perspective? Or how much you think will have to be given off either in the form of margins or higher opex to kind of sustain the growth and profitability?

Rajeev Jain: Let me make a point, we are the first company after the tax cut to go out and announce a 5% increase in salary for 16,000 employees out of 19,000 employees. We remain committed to add value to shareholders, customers and employees. These are the three main constituents and accelerated investments. I would say we are working on all three areas. But it is difficult to quantify what goes where.

Umang Shah: So basically, what I am trying to understand is that your medium-term ROA/ROE target, which you put in your presentation, does not really change for now at least?

Rajeev Jain: No, it does change. Because we are in the middle of a capital raise, we have actually removed that. We do believe that from 18%, 20% medium-term guidance, we will look more like 20%, 22% medium-term guidance.

Umang Shah: Okay, alright, that is very helpful. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Jignesh Shial from Emkay Global. Please go ahead.

Jignesh Shial: Congrats on a very good set of numbers. Just two things. One, if I see your zero DPD delinquencies, I guess, everywhere, sequentially, we are seeing a rise has been there, right? So across products, obviously, two-wheeler had been much higher, but this means the pressure is getting built up, right? So, I understand part of it is also because you are cutting down the additional new customer base that is understood. But what is your assessment, do you think this trend seems to be getting even further worsen off going forward? Because the difference is sizable, if you see almost is 100 Bps in the two-wheelers & 30-BPS - 50-BPS across. So, what is your sense over this?

Rajeev Jain: Our business being financial services is a tough business because when the demand slows down, not only you get hit by slowing NIM, you also get hit by credit costs. So, it is a double hit. That is the nature of our business. If you stay with panel 45, consumer durable, the rightful way to look in a difficult environment would be where are you on 30-plus because zero-plus is immaterial, but the credit cost will eventually flow from 30-plus. So, we started to see things slowing from November onwards. What used to happen was that bucket 0 & 1 client used to be collected by same collections infrastructure. In June this year, we separated bucket 0 and 1. If you see, let us take, 30 plus in consumer durable, you see 87-basis points in June'19 moved to 84-basis points in Sep'19. If you see lifestyle, while we have stamped it as yellow, you see a 14-basis point movement of June to September versus March to June of 21-basis points. If you see digital, it is improved. By February, March, we expect things should improve. If you go to the next panel, In PLCS, you will see 13-basis points movement in June - September versus a 20-basis point movement between March-June. Salaried persons are steady. So, things are not deteriorating. As you see, business and personal loans, which was at 96Bps is steady. But is the environment slow? Yes. I think we are watching carefully. We are cautious. We are investing deeper in collection structure. We are prudently tightening underwriting standards wherever we see a yellow emerging. As I said earlier on the call, I see the year to look like FY2017, which was a demonetization year, where overall credit cost adjusted for ECL went to 175 – 178 basis points. We look like 180 basis points. It does not change the operating trajectory of the business or the earnings profile of the business.

Jignesh Shial: Okay, since now your lifestyle, your auto and your digital is yellow, so the only one, in B2B technically speaking, is white goods which seems to be green right now. So overall, your customer addition has anyhow slowed down in last quarter, so is it a fair assumption that this slowdown will continue at least for a quarter or two? And if that happens, do you think the momentum to grow aggressively will stay? Or do you think there is a risk emerging on the growth, AUM growth as such as well?

Rajeev Jain: This panel does not represent AUM. Actually, we retained lifestyle because this panel of yellow is only Rs.1,000 Crores of assets. It is Rs.800 Crores to be precise. The largest block in this panel is actually consumer durable. So, we did not want to remove the panel in any given manner. The largest panel is consumer durable, but that is on one side. On the other side I have no view on how Q3 will look. I believe, that is how it will be. We would not know till December 31, 2019 because that is also a big season sale day as to how the year will, how Q3 will pan out. But I do believe very strongly given very strong monsoon, well-distributed monsoon, and on reservoir capacity we are running 25% ahead of last 10-year average that semi-urban, rural demand revival will emerge by fourth quarter. Urban demand is difficult to predict. As I said, we are well prepared for growth. We are in 2000 cities in India and towns in India. Revival will emerge from there, penetration rates are less there, profitability is better there, access is harder there. So, the business is stronger. It is difficult for me to guide or predict how things will look in the near term. I can guide you for long-term, that in the long-term, we will continue to grow in a robust manner.

Shubhranshu Mishra: So, this is a question for Deepak. I just wanted to understand your collection infrastructure, how many people are deployed? And what would they be as a proportion of your total manpower? And is it split category wise? If yes, what are these split in terms of manpower in terms of category? That is my first question.

Rajeev Jain: Out of 20,000 people in the company 4,800 odd people work in collections. They essentially work with managing agencies. They do not collect directly. They manage agencies. We have very deep well oiled collections engine. We think it is an entry barrier to the retail business and in general, we have created one of the lowest cost collections infrastructure in the country.

Shubhranshu Mishra: So how many agencies? I just want to understand your infrastructure there in terms of collections?

Rajeev Jain: We work with close to 16,000 agencies in 2,000 towns in India.

Shubhranshu Mishra: Right. And this is for all the products or just for your consumer products here, consumer and personal products?

Rajeev Jain: Of course, all products. The company is verticalized on business, risk, underwriting and collections. So, if there are 15 key lines of businesses, we will have 15 different collections heads and collection structures and they may have distinct collection agencies or common collection agencies, but distinct teams within collection agencies.

Shubhranshu Mishra: Right and out of these 16,000 agencies, how many would be in the top 10 cities?

Rajeev Jain: 40% of our business comes from top 10 cities. Reasonable to assume probably 20% of the agencies will be in top 10. Atul can respond. Atul used to be our collections head earlier. He is now the CEO of BHFL.

Atul Jain: So, what happens generally is when we say 16,000 agencies, because we work in 2000 towns and cities, as you go out of top cities, the absolute volume per location is low. So, you will have less people in an agency there. But when you come to top city like Mumbai, one agency can represent even 200 employee force. So, number of agencies would not be a right criteria. Basically, you have to look at it only in terms of basis of volume the people are available to collect in each of the market.

Shubhranshu Mishra: So just to get back at the number, 40% of your business comes out of top 10 cities that is the correct number?

Rajeev Jain: Yes.

Shubhranshu Mishra: Sure. My second question is with regards to your leaning towards the existing customer, as in 70% of your new originations are for the existing customers, but then this existing customer lies within the same slowing down economy that you and I are. So how is he any different from the new-to-credit customer or any other customer?

Rajeev Jain: The basic principle of banking remains that existing customer is lower risk. It is not no risk, right. So, it is lower risk. We remain committed to growth on one hand and we remain committed to sustainable growth on the other.

Shubhranshu Mishra: No, I understand that part. What I am trying to allude to is that, which you have also alluded to, that the entire economy is slowing down or is in a slowdown. The festive season has not been great. So this existing customer is also part of the same economy that you and I are.

Rajeev Jain: So, he is part of the same economy and if he is not behaving properly in some place based on bureau data, I would also not offer him.

Shubhranshu Mishra: Okay. Then is he likely to behave improperly or has he in the past six months?

Rajeev Jain: New customers have moved much worse off than existing customer.

Shubhranshu Mishra: Can you put a number to that, please?

Rajeev Jain: What would you mean by number?

Shubhranshu Mishra: Any 0 DPD for new customer or 30 DPD for new customer, any kind of...

Rajeev Jain: That is in public domain in the past that existing customer gives 0.25x – 0.33x loss versus new customer gives 1x loss.

Shubhranshu Mishra: So, has this changed? Has this proportion changed?

Rajeev Jain: It has not changed.

Shubhranshu Mishra: Okay, sure. Just one last question. In your commercial lending which you do to your auto ancillaries, now auto ancillaries are also slowing down. Now I understand we do it for the Bajaj Auto ancillaries. But then auto ancillaries, in general, are also slowing down. They have had planned shutdowns. So, how do we see that particular book growing? Any kind of incremental risk management strategies in that particular book itself?

Rajeev Jain: Yes. So we do not do only to Bajaj auto ancillaries. It is a consolidated supply chain. There would be very few people who would only work for Bajaj. In 2007- 2008, the auto ancillary industry went through a structural change where they realized that too much reliance on a single OEM represents existential challenge for them. So, in general, in the last 12- 13 years, the entire auto ancillary industry has created its own model, small or large or medium, that they only do particular amount of business with a single OEM .We lend to auto component manufacturers across two wheeler, four wheeler and commercial vehicle.Fundamentally, the supply chain is highly consolidated so far the businesses have not seen any impact, is the capex slow, the answer is yes. You see in our commercial lending business growth as well, it has grown by 18% versus 30% growth last year. incremental capex is not there, then where is the question of me giving them more money, but so far as we published the data, commercial lending portfolio, other than one single account which is a old infra account, remains current.

Shubhranshu Mishra: So anything that has changed for No-Go, what is the No-Go for you in commercial lending today versus one year ago?

Rajeev Jain: We are growing, one of the non-bank has recently failed where we do have Rs.50 Crores exposure, part of which we have taken in stage 1 as prudent measure in the current quarter. We stopped lending to wholesale non-banks after IL&FS incident last September. But otherwise, other parts of our businesses continue to grow in a healthy manner.

Shubhranshu Mishra: Thank you so much for your time and best of luck.

Moderator: Thank you. The next question is from the line of Parth Sanghvi from Emkay Global. Please go ahead.

Parth Sanghvi: Sir, just a quick question regarding to the balance sheet. Sir, I see like a big jump in the other receivables compared to the same item as on September 30, 2018 and March 31, 2019. What is this attributable to?

Rajeev Jain: I will let Sandeep respond.

Sandeep Jain: So other receivables, we had a mutual fund sale down at the fag end of the quarter end and the money came in on the first day, which is after the working hours of September 30, 2018 and that is what is shown as other receivable instead of being shown as investments.

Parth Sanghvi: Okay, got it. Thank you.

Moderator: Thank you. The next question is from the line of Piran Engineer from Motilal Oswal Securities Limited. Please go ahead.

Piran Engineer: Congrats on the quarter. I just have a couple of questions. So firstly, in the HFC subsidiary, I have noticed over the last few quarters, that our cost of funds is 50 – 60 BPS lower than the parent. So firstly, am I right? And secondly, how is it that we get such a low cost of funds around 7.4% - 7.5%?

Atul Jain: To answer the cost of funds in BHFL is same as BFL. So, our cost of fund for the last quarter is also in the same range of 8.4% - 8.45%. The reason for you see a higher NIM or a higher spread is because the HFC as of now is much more capitalized than the base capital level required, so the spread looks more. The cost of funds is not different.

Piran Engineer: No, but, I am just doing the simple math of dividing interest expense by the borrowing book. So like Rs.371 Crores divided by average borrowings of Rs.22,000 Crores - Rs.23000 Crores and I have seen that for the last few quarters that the cost of funds is significantly low and even compared to other HFCs, like HDFC and all. So, I just wanted to know if there is some allocation of interest expense to the parent or is that a correct way of looking at it?

Sandeep Jain: No. Nothing of that sort. Two things: One, this is a growing balance sheet, so the monthly acquisition of borrowings is not same as the quarter divided by 3 so that is one point. Second, if you notice in the current quarter, we have borrowed a lot of money at the end which we have parked in the investment as well. So, when you are calculating the interest cost to average borrowing, you are counting the borrowings raised at the end of the quarter into the average number. So, once you correct that, you will come to a number close to 8.4% - 8.45%.

Atul Jain: And there is no transfer or allocation because both BFL and BHFL borrow independently, separately on their books. There is no cross transfer or allocation between BFL or BHFL.

Piran Engineer: Okay, got it. Thanks for that and my second question is basically in digital products financing. What percentage of our customers are new to BAF and what are existing? Because my assumption was that digital products customers are a subset of the consumer durable customers, in which case the delinquency should have been lower than consumer durables. So is my thinking correct?

Rajeev Jain: Thinking is correct except even the existing customer who takes a refrigerator versus takes a mobile behaves differently, so context to the point, yes.

Piran Engineer: And he is more likely to default on the mobile?

Rajeev Jain: Yes. Conceptually, it is correct. It is a same customer for a panel, same customer behaves differently for a panel versus a refrigerator versus a microwave versus a mobile. We run them as six different businesses, not as one. The risk metrics change. You may be offered a refrigerator but may not be offered a mobile and vice versa would not happen, so that is one part. Second, digital products would be 75% - 78% existing customer because going back to the earlier conversation, we have tightened underwriting standards. So we are not encouraging new customer that much in digital products. So, on an overall basis if we are 70% existing customer share digital products will be 75% - 78%.

Piran Engineer: Okay, understood and what would be the LGD in these products?

Sandeep Jain: So, if you look at customer crossing bucket three, which is NPA bucket, the provisioning are generally in the corridor of 80%. So that represents the LGD in digital lending and consumer electronics business. Of course, if the customer crosses five, six installment overdue, then the LGD becomes 90% plus.

Piran Engineer: Okay. Understood and just lastly, on Nischint question on credit cost, Rajeev said that by the time you reach the H2, you make 21% -22% provision. I did not really follow that. If you could just repeat what you meant?

Rajeev Jain: So, once the customer moves from all installment paid on time to customer with one or two installment overdue, we end up making anywhere between 16% to 24%provisioning on the account. Now it varies product by product. If you take an example of consumer electronic or digital product, maybe the number moves almost to a 40% level. If you take an example, let us say, of mortgage business, the provisioning maybe in the corridor of 15% to 18%.

Piran Engineer: And this has changed under the ECL model, is it?

Rajeev Jain: Yes, exactly. It is ECL model. Based on statistical empirical evidence, as I said earlier, for AC it can be different and for a PC it can be different, and different for, let us say, digital product, but on aggregate, anywhere between 18% to 22%.

Piran Engineer: So, what your point was that earlier, since it was a standard asset, you made only 40-BPS of provisioning, but now you are making 16% to 24% of provisioning on that 30- 90 day bucket?

Rajeev Jain: Yes, that is correct, between bucket one and two, bucket three any which ways, it was always NPA and we would provide whatever was our conservative provisioning standard. Now even as accounts move from one and one to two on the incremental flows, as Sandeep said, between 18% - 22% gets provided for.

Piran Engineer: I understood that. Thank you so much for your time and all the best.

Moderator: Thank you. The next question is from the line of Dhawal Gada from DSP Mutual Fund. Please go ahead.

Dhawal Gada: Rajeev, congrats on good set of numbers. Just one question on the rural business. I just wanted your thoughts on the fact that risk metric of 30-plus is sort of rising and if I go back in history where you used to share the overall rural lending 30-plus data, this number in the B2C and probably even in the B2B segment seems to be at the upper end. So, I just want to understand till what level are you comfortable doing business here? And at what point do you think that this business comes into yellow category? That is the first question I have.

Rajeev Jain: The matrix of the business actually is like that margins are better, credit costs are lower, access is harder which means the moat is stronger. If you just compare, let us say, rural lending B2B business with a blend of two panels prior with consumer durable and digital, you see distinctly better, safer, stronger rural business. It is just that you are doing comparison with previous numbers So even a 98.87% current bucket or 0.84% 30-plus, leading to, 40-basis points loss rate business relatively looks worse off, but that is not the case. So, our internal model show that we can go far lower. But that is not how we run business. We have pruned between January and June in the rural lending B2B business and B2C business around 20% - 25% of the business in the last six months. So, because we do see it as an important profit pool and want to hold the current standards of underwriting and risk metrics.

Dhawal Gada: Understood and on the second question just some color more, on the new to Bajaj customer base engine which you are filtering far more prudently today gets back to the normal sort of momentum that we used to see maybe couple of quarters?

Rajeev Jain: Credit cost should come down. We should go back to 150 – 155 Bps and then we will be fine. So, it is very simple, right. I mean at the end of the day, all the commentary will be of no consequence if the credit cost go up. So, as credit costs start to go down, I am hoping reasonably by the fourth quarter end, we will hopefully be back to much more stronger growth in consumer durable business.

Dhawal Gada: Okay perfect. Thanks and all the best.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, that was the last question. I now hand the conference over to Mr. Karan Singh for closing comments.

Karan Singh: On behalf of the 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 in the call today. Thank you and good bye.

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