"Bajaj Finance Limited Q2 FY21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Bajaj Finance Limited Q2 FY21 Earnings Conference Call hosted by JM Financial Securities 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 the 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, sir.

Karan Singh: Thank you. Good evening, everybody, and welcome to Bajaj Finance's earnings call to discuss the second quarter FY21 results. To discuss the results, we have on the call Mr. Rajeev Jain, who is the Managing Director; Mr. Sandeep Jain, who is the Chief Financial Officer; Mr. Atul Jain, who is CEO, Bajaj Housing Finance; Mr. Anup Saha, who is Deputy Chief Executive Officer, Bajaj Finance; and Mr. Deepak Bagati, who is the Chief Risk Officer. May I request 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 evening to all of you. I'll be referring to the investor deck that we have uploaded in the investors section of our website. Let me, without wasting time, jump to Panel 4.

Q2, the quarter that went by, in our assessment was all about gradual unlocking of the economy. Our focus, as a company was all about restarting all our businesses, creating 'back to growth' plans, given that COVID-19 caused it all to go to zero between April, May; continuous risk modeling to refine loss estimates, augmenting our collections capacity and begin the implementation of our business transformation, which we talked about in Q1, knowing fully well that we will have a smaller aggregate economy over the next 12 to 18 months. What that led to is AUM grew 1% to 1,37,090 crore; OPEX to NII, which I'll provide some more color over the next few slides, came in at 27.8%; PAT, after a lot of one-timers that we took, which I'll cover as well, came in at 965 crore, a contraction of 36% YoY; ROE at this point in time is not really relevant, but came in at 2.9%; net NPA, given morat and Supreme Court verdict is not really relevant but came in at 0.37%. I'll throw some more color on it in the next few slides.

I'm on panel 5. I'll cover point 1, 2, 3, 7 and 8. While overall presentation is 49 pages, I intend to cover a few salient points for you to give you full texture on the quarter that went by. Very quickly, point 1, we started origination across all businesses, except retail EMI card business, which used to contribute close to 4,50,000 accounts in a quarter a year ago and wallet loans business, which used to contribute 1,50,000 accounts. Both these remain in pause mode and will remain in pause mode till January and March, respectively. Adjusted for that, we've now restarted all our businesses to virtually pre-COVID-19 levels. The Company overall booked 3.62 million loans, against 6.47 million in Q2 FY20. As you can see, 0.5 million or 6,00,000 loan accounts came in just from these 2 businesses. We had an option to restart both these businesses, but from a risk standpoint, chose to push them to January and March. At this point in time, given that every month is important, we are fundamentally witnessing month-on-month improvement in volumes across all businesses. In general, I would break the quarter into 2. We had a conservative stance on volumes till August, given extended moratorium and absence of updated bureau data. From the month of September, the company has started to accelerate volumes across all businesses. We do expect even bureau data to go fully onstream by November, which should further add volume momentum. Please do realize that bureaus are "the radar" on which the consumer credit in any part of the world works. So it is a headwind from an information availability standpoint.

Let's talk September. Let's break this into 3 parts. The urban consumption business came in year-on-year at 72% of monthly volumes; rural is starting to be back virtually close to 100%, came in at 91% of year-on-year volumes; credit card origination at 73%; e-com came in at 75%; and order finance was at 54%. If you look at loan businesses, whether it is personal loans, mortgages, rural personal loans, SME were on an aggregate basis at 62% of last year's volume. In the current quarter, company acquired 1.2 million new customers. Overall franchise stood at 44.11 million customers.

Point number 7, AUM moderated to 1% at 1,37,090 crore. We expect now the AUM growth to be at 6% to 7% versus 9% to 11% forecast that we had actually given to you in Q1. If the momentum by Q4 is stronger, which is possible, there may be a potential upside. So far, when we look at the loan volumes that we have booked during June July and August and some part of September, the risk numbers are looking better than pre-COVID-19 levels, but it's a little bit of oxymoron. Once business goes back to 100%, we can safely say, risk metric or same. At this point in time, based on our conservative risk plans of July and August, they ought to be significantly better, which they are at this point in time.

Jumping to Panel 6. Point number 10, the management plan at this point in time, is that the last full pre-COVID-19 month was February, is to go back to February '20 volumes as a company on a month-on-month basis by March or April 2021. We do want to enter next year forgetting about 2020-21, whether in terms of balance sheet standpoint or in terms of loan loss standpoint. We will front-load the loan losses. We will backload the growth, so that net-net, April '21, we are back to where we were, where we would have been if COVID-19 did not happen in April '20. So that's really the thought process.

Carrying a lot of liquidity was important given how dark the days were between April, May, and June. The Company still had close to 27,000 crore of cash balance between SLR securities and liquid mutual fund investments. Total carrying cost of liquidity, came in at 220 crores against 47-50 crore that we used to have in Q2 '19-20. Given favorable market conditions, given the wall of liquidity that's sitting in the system, we will start to now dial down the liquidity buffer over the next 6 months and expect to revert closer to pre-COVID-19 liquidity levels by March-April '21. We also believe that the cost of excess liquidity will normalize exiting Q4. Deposit book continues to grow, came in at 21,700 crores, a growth of 23%. The mix has also been shifted. We had provided guidance on that in Q1 as well; 75% is retail; 25% is wholesale versus 56:44 in Q2 FY20.

Point number 14 is extremely important. We fundamentally had a choice to make in April when COVID-19 happened, either cut cost significantly or grow volumes over the next 6 months. We, as you are aware, chose to cut cost. In Q2, despite higher fees and commission costs, to the tune of 25 crores. overall, opex for Q2 is down 224 crores. As a result, NII grew 4%, but OPEX degrew by 16%. I think it will go a long way in ensuring that we come out of this crisis stronger. Some of these cost cuts are structural, some of them will never come back and some are transient. The transient costs will come back as we go back to growth, but the structural cost changes will be permanent in nature. So if you took this number of 225 crores, I would say, 120-odd crores is not going to come back and 100 crores will come back, ballpark level. Point no 16, as we go back to normalization of all our activities as a company, some of the operating expense actions also will be rolled back. We have reinstated our quarterly incentive plans

Let's spend some time on credit costs, given the large provisions that we continue to take. Point number 17 is extremely important. First line is an important line. Loan loss and provision estimates, as far as we are concerned, are a lifetime loss estimates. They are, in a way, truly ECL loan losses. That's really the way we see it as. This does mean that companies accounting for additional loan losses that may otherwise occur in FY '22. If you flow it the way it would flow, I can easily take you to the first half of next year or maybe even a little longer. We are quite clear, we frontload the loan losses, absorb the shock, so that the company is geared for growth as we get into FY '22. It is possible that there is recovery. We do expect in the process, if we frontload the losses, that we go back to pre-COVID-19 loan losses of 160 to 180 basis points of average assets. If the recoveries are stronger it is possible that FY '22 may have lower net loan loss to average assets. It's possible, but that's not really what we're banking on. We are saying, we go back to normalcy.

We took 1,370 crores of loan losses and provisions. That's the number which is there. Total provisioning coverage now stands at 5,099 crores. In general, we are seeing continued improvement in portfolio quality across all lines of businesses. If you draw a parallel, we started from 27% moratorium book, went to 15.7%. Moratorium ended and converted into so-called 30-plus, which is really what we stood at 8%. So 15.7% in July has flown to 8%. That's really how you should look at the parallel, 27%, 15.7%, 8%. Still a far distance from where we were a year ago, 30-plus was 2.3%. It's come in at 8%. But there is a continuous improvement. And if it was to persist, maybe overall loan losses can turn out to be lower, it's possible, but we will take that view as we experience every quarter. Last guidance we provided on loan losses and provisions was 6,000 to 6,300 crores in addition to 1,150 crores that we've already taken in Q4 last year. At this point in time, our loan loss models, in general, by most businesses, if not all, are projecting an improvement to this estimate. We'll continue to roll forward those loss forecast by its portfolio, and hopefully, I would say, we are 80%-85% done. There is a 15%, 20% residual frame on which we will become fully clear. There's a 10%-20% clarity, that will fully emerge by end of quarter 3. So it's not too far away. So far, we have taken in this year, 3,400 crores, that's point number 22, against the 6,000 - 6,300 estimate. Residually, we have to take 2,600 to 2,900 crores. In first 2 quarters, we have taken 1,700 crores on an average. If I took this number, we would take 1,450 to 1,500 crores a quarter on the outer side as a company.

We have started to offer RBI's resolution plan. So far, in the last 7, 10 days, we have offered resolution plan of 252 crores, of that, 214 crores in mortgages and 38 crores in consumer. Largely, it will be effective or applicable in mortgage businesses really is what our assessment at this point in time is.

Point number 24, from a P&L standpoint, is relevant. We've also reversed capitalized interest of 142 crores so far in Q2 FY21. We have reversed capitalized interest to the tune of 361 crores in first half of the year. Gross NPA, net NPA came in at 103 basis points and 37 basis points, based on Supreme Court's interim order of not classifying NPA. Adjusted for that, GNPA and NNPA would have been 134 to 56 basis points. But as I said earlier, these numbers are not really relevant at this point in time. They will become much more relevant in Q3 and will become fully relevant by Q4 only for entire financial system.

Profitability, as I said, I'll provide some color, contracted by 35%. PBT came in at 1,305 crore but on account of massive one-timers. None of them are required to be taken, let me make that point importantly. Our run rate as a company, was 600 crore of loan losses. I can easily provide only 600 crore at this point in time. We took 1,700 crore of loan losses instead. That's 1,100 crore of one-timer. 173 crore of additional cost of liquidity, that's one-timer. Interest income reversal, we are not required to do, that's 142 crore. These numbers, if I add, add up to 1,400 crores. Technically, we could have announced a profit of 2,700 crores. But that would not be demonstrating prudence. We want to frontload losses and backload income rather in the frontload income and backload losses. So that's the picture in general.

Capital, we accreted. We ended at 26.6% as a company. Business transformation, that's really 70% of the time is going for the management over the last 4-5 months. We want to become a moment of truth company across all our products and services, reduce friction, generate velocity. We will deliver what we are saying by June-July 2021. Once done, what does that mean? It's not a technology project. It's a business project. It should mean significantly lower cost and at much higher velocity. That's really what the business transformation once we deliver by June- July’21 would deliver.

Let's just jump now to panel 35. We took away this panel in Q1, given the state that things were in. We're publishing it. 44 million franchise, 54% is in general, cross-sell franchise. A year ago, it was 59%. So, as clients move into 30-plus, you see the drop in cross sell franchise. This is despite the set of actions that we've taken on. We have various statistical scorecards, things like behavioral scorecards. B score models have gone through change. But net-net, 59% of the franchise is available for cross sell, which is so-called the best franchise, which was 56% in Q4 is looking like 54%. We still added 1.2 million new customers, in Q2.

Let's jump to Panel 46. This is an important slide. This is the way you should read it is, Stage 1, 2 and 3 are defined below. Let me just cover that. Stage 1 is fundamentally defined as clients with no overdue on reporting date. Stage 2 is defined as clients with 1 or 2 installments overdue and also includes our internal weak account framework. So weak account clients don't have an overdue but are added to it. It's much more relevant for mortgages, and I'll cover that in a moment. Stage 3 is clients with 3 and above installments overdue. So if you see Stage 1 as of September 30, 1,25,000 crores of assets are in Stage 1. Stage 2, which is 1 or 2 installments overdue is 10,913 crores. And Stage 3 is 1,873 crores. If you exactly populated a year ago number, it's strangely come in close. 128,000 crores was the balance sheet. Stage 2 versus 11,000 crore was a 3,000 crore. Stage 3 was actually higher. The reason Stage 3 was higher is because everything has been in static mode now. So it's just a point to keep in mind. Against that, if you see the provisions for Stage 1is 1,571 crores; Stage 2 against 10,900 crores is 3,500 crores; and Stage 3, it's 1,100 crores. So versus a 60 basis point standard asset provisioning, we are at 130 basis points as of Q2. versus Stage 2, 17.5% that we used to have, we are at 32%. And Stage 3, where we were at 60, we are at just a tad below 59%. This is really a summarized view. It changes by line. You see a lower stage 2 PCR because of being secured asset. You see the lowest in commercial lending at 4.5% on Stage 2. You see 15.5% in mortgages and so on and so forth. So it's based on our past experience that these loan losses have actually been or this PCR has actually been arrived at.

Next few slides are, we just go back to where we were. Two changes that we've made. Fundamentally, lifestyle is a small business, we don't want to make a change to it. It's less than 400 crore. So we merged that. So that's one change that we made. The second change that we made is we have now made personal loan together. So we were always publishing B2C business. Rural B2C was an aggregate output that we were publishing, personal loan was broken into 2; we have now aggregated it together. So that's a second change. Otherwise, there's no change in any other panel. That's really the quarter that went by. I think I've covered all the important points. Happy to take questions between me, Sandeep, Atul, Anup.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Dhaval Gada from DSP Investment Managers. Please go ahead.

Dhaval Gada: I had 3 questions. First was, could you share Bajaj's share in the OEM subvention pool? It seems that we have lost share and part of it might be a conscious strategy. I just want to understand how does this impact Bajaj's position in the market from a medium-term perspective, if there's any material impact to this strategy? So that was the first, your share and the impact. The second was in terms of you've talked about this transformation journey. I just want to understand a couple of important drivers to reach this 105 million customer and prospect customer from where we are at about 44 million. What would be 1 or 2 major transformation changes that we'll be doing to achieve this target? And the third one is related to sort of the originations being very low. I mean, they were still down 40% at the end of September. But our fee income was quite resilient, and we made a couple of important product introduction this year, which we talked about in 1Q. Just wanted to understand how much of the overall fee is sustainable, and how does this impact overall business model? So those are 3 questions.

Rajeev Jain: Look, so fundamentally, I'll go back to the PPT. It's not like we've been in a monopoly situation. We have been competing with various players in this business for last many years with some of 2 large players in the last 3, 4 years. 70% of the OEM share used to be us. Used to be, meaning, that number did not change. Based on COVID-19, I'll go back to point number 2; in the last 3 years, if it didn't change, there was no reason for it to change. We took a stance that this is not the moment to grow. We want to grow as a company. We don't want to grow at any cost. So that's an important management call that we took that until moratorium exists, number one; number two, until bureaus fully normalize; until we can see some light at the end of the tunnel in terms of reduction in bounce rate, number one; improvement in collection efficiencies, number two; we don't want to continue business as usual. These were the 3 drivers as a result of which we decided to pull back till August. To give you a direct answer, the number used to be 70% of total OEM share. Number dropped to 60% to 63%. It will go back in Q3. That's all. Because 70% of the sale, let me make a last important point, for us, as a company, comes from our existing customers. So it's not like that customer has gone anywhere or the retailer has gone anywhere. Let me make a point that in the month of June-July, 40% of our business on EMI card used to be on 100% financing for the last 10 years. We took a view, even for EMI carded customers, we would finance only 70% of loan amount. Maximum in some of lines, we did 83% financing.. These were risk calls that were taken. We have released most of them, if not all of them. There's still some residual pieces left as I would say, 95%, we are done with it. There is 5%-7% that we'll further release as we see early November bounce data. That's question number one. Question number 2, was on transformation. Look, the transformation frame was created as part of our strategic plan, which we roll every year in November. We are becoming quite clear that there's a degree of linearity in our lines. If we had to create a nonlinear way to grow, we needed something to change structurally. So we created a frame called 3-in-1 which fundamentally said, in 3 clicks, you should be able to do away with a financial service products across loan, insurance, mutual fund, cards for our existing customers.. That's really where our focus was. We have significantly expanded the scope of that. If COVID-19 had not happened, it would have been a channel for us. Let me make that point. So on a continuum, it went from 4 to, I would say, 8-9. That's really what has happened. So, it's not that we've thought this through in the last 4 months. We've significantly expanded the scope of it, and then we will conduct business over the next few years. New product interest, as we deliver the second point, which I made, it will dramatically enhance velocity of cross-sell. We reach customers when we want to. Customer is still is not able to reach us. Do we have the orientation to create products? Do we have the product suite to deliver that? The answer is yes. You could buy a pocket insurance today. We have 120 products. Nobody else has it, just as an example. This 33,000 customers every month in our franchise buy one of the pocket insurance products, just as an example. So we have the product suite. We have the franchise. As we deliver 3-in-1, we should see significant expansion in pull and generating fee play over the next few years.

Moderator: Thank you. Next question is from the line of Mahrukh Adajania from Elara Securities. Please go ahead.

Mahrukh Adajania: My question is on flexi loans, so what is the outstanding flexi loan at the end of September?

Rajeev Jain: Total outstanding flexi loans book was around 43,000 crores. We did 8,600 crores in Q1. We did another 1,750 crores in Q2, as well, in conversion. Largely, we will see this number to be 500 - 600 crores as we go ahead from here.

Mahrukh Adajania: Got it. That is just conversion. And there was some new flexi loans?

Rajeev Jain: Total number is 43,000 crores. As I said, total number across mortgages to personal loans to gold loans, LAS, so on and so forth, put together, would be around 43,000 crores.

Mahrukh Adajania: Got it. And just in terms of conversion, any particular segment where the conversion was the highest? Any color on segment-wise conversion?

Rajeev Jain: In general, the take-up rate was between 45% and 50%. There's no specific variance.

Mahrukh Adajania: And just one clarification, again, on the flexi loans that say for B2B customer takes a flexi loan, then the flexi portion will also be...

Rajeev Jain: We don't offer it in B2B. It's only offered in personal loans, offered in mortgages, offered in gold. Gold loan, by nature, is a flexi loan. LAS, by nature, itself is a flexi loan, by nature, itself.

Mahrukh Adajania: Okay. For consumers?

Rajeev Jain: Yes, exactly.

Moderator: Thank you very much. Next question is from the line of Ashish Sharma from ENAM Asset Management. Please go ahead.

Ashish Sharma: So Rajeev, just a couple of questions on the asset quality, and specifically, the provisioning costs. So the one clarification, which I think you mentioned that we are preempting little bit of a credit cost for FY '22. So just wanted to get clarity that in no way that the way we think the credit cost will pan out that there will be any slippage of FY21 credit cost to FY22. Basically, actually, it's a reverse that we are preempting little bit which actually would have spilled to FY22 and we are preempting that.

Rajeev Jain: So let me simplify the conversation, Ashish. Is it possible that just on a flow basis, as I said in the conversation earlier, can I extend this to September? The answer is yes. Can the credit cost fundamentally in the current year be lower by 1,200 to 1,500 crores on a flow basis? Answer is yes. Will we do it? The answer is no. So that's one part of the conversation. So we could easily do the number as less than 1,200 crores. It could easily come in at 5,000 crores. But then in first quarter and second quarter, we'll be saying there's still more residual left. So we are frontloading it. That's point number one. Point number 2, which is that there will be nothing left, just for both of us to be in the same page, we're not talking 100 - 200 crores. If we're talking, the answer is there is no residual left. We could always do a little higher in Q1 by 100 to 200 crores, that's what I meant. That also we won't leave it.

Ashish Sharma: No, I think that's just about it. Second question would be on BHFL specifically. I think in terms of growth outlook there, I think, in Q1, we had made a certain statement as to we will have to review the growth outlook there? I mean, how do you see the situation? I mean, the rates have come off even more from Q1 to Q2, in terms of outlook on growth and profitability for BHFL?

Rajeev Jain: So first point, like us, BHFL is also focused on going back to pre-COVID-19 growth levels by March-April 2021. But let's just step back for a moment. Look, BHFL was created as an intent to create a standalone mortgage business. As we became very clear, 2.5 years ago, that mortgage businesses are very different from consumer lending and MSME business. BHFL, however, being a 2-year-old business, predominantly on the liability side, relies on bank funding rather than money market funding. Because it is only 2 years old, it has only 2 years of financials. And our thought process was that as it completes the current year, it would have completed 3 years of financials, we will start to get lot more access to money market funding. That's, of course, got pushed away by year anyway, but inherently creates a cost disadvantage. And this business is about process and costs. You got to do business at a much lower cost, which is process. And you've got to originate money cheap. The one part of the play, to be fair, which has got nothing to do with management, is they do have a disadvantage that only time will fill the gap on. That's really what our thought process is at this point in time. Overall, if I look at them as a company, even for them, in the month of September, they have come back to 75% of pre-COVID-19 volumes. So, will they go back in March-April to pre-COVID? Answer is yes. Do they have an inherent disadvantage being a new kid off the block? The answer is yes. How will that get mitigate? Only time will fill it. There's no shortcut to building businesses.

Ashish Sharma: Perfect. And I think you clarified on the liquidity buffer part. So going in the second half, we will start reducing the additional liquidity buffer?

Rajeev Jain: Virtually now, let me make that point. We are technically not going to borrow in both the companies if we have to dial it down to where I have given guidance for. There will be very little borrowing that we'll do. If we do any borrowing at all, that will be in CP. CP for both the companies put together is down to less than 2,000 crores. Look at the kind of conservative plans that we took as a company, and I believe, rightfully so, given how dark things are looking between April, May, June, July.

Moderator: Thank you very much. Next question is from the line of Adarsh from CLSA. Please go ahead.

Adarsh: So in the asset quality side, I see that most segments have seen a 5% to 10%, or let's say, 6%, 7% to 10% kind of SMA book. Loan against property has held up pretty well. It's broadly where you were in terms of SMA pre-COVID, right? It's quite surprising or I would say, positively surprising. So if you can just reflect on why would this have happened or what's led to this being as resilient?

Rajeev Jain: Let's look at the number right, Panel 48. A year ago, loan against property, stage 2 was 60 basis points. Today, it's 236 basis points. What has happened is that cases have flown forward. Refer similar stage 2 numbers. The home loans stage 2 was at 13 basis points. It's now looking at 140 basis points. So see, it's all relative from where they were, and please understand each of them are adjusted for margin. It's adjusted for margin conversation. We can't sustain 236 basis points Stage 2 in LAP business. We can't sustain 130, 140 basis points Stage 2 in home loan business. We have run home loan business for 2 years. Number runs at these levels. So adjusted for risk, it's a pretty universal outcome in general, so far, it seems to us.

Adarsh: I was just saying that when I compare to business loans and anything, LAPs held up well because the segment is still business owner. And it looks like it's held up at 2%, 2.5%. It's held up pretty well. The other way I like to ask this question is and it relates to any SME kind of business, if you didn't have the flexi product, will the 8% number be materially higher for us, Rajeev, in terms of the SMA book? How would you answer that question?

Rajeev Jain: Look, I'll answer it a little differently. You can't model these numbers. We model numbers by 20% and 30% and 40%. As the world went into lockdown, fed's 12-year models failed in 2 weeks. We publish consumer durable data for the last 8 years. Number gravitates between 98% and 98.5%. We are watching this data for 10. If I modeled it saying it went to 92%, what will happen? I would say, let's not do business. Because at 92%, the business doesn't make money, so that you're all on the same page. We are risk managers. We take risks so that money can be made. You can't model these numbers. These models come out of once in a century crisis. Please understand this. We model for, "Okay, number went to 98.5%, goes to 97.5%. What will happen?" We will say, "You cut the bottom 10%. At 92%, you have to cut 40% business. So this is a "once in a lifetime crisis" produces this way. The important thing, however, Adarsh, is something else. Why have we not relaunched REMI and wallet loan? Because I have a view that we are in a business of cycles. In consumer lending, cycles happen. Some happen in 10, some happen in 12, we can stretch it to 15. Cycles will happen. There will be 1-year of lower growth or a disproportionately lower ROE. It's a truth of our business. I've been in it for 27 years to know that. What triggers it is not known. In that year when that happens, did the business lose 3 years of earnings or a year of earning? That is an important conversation. REMI and wallet loans lost for me 2.5-3 years of earnings. That's the lens that we applied for what restarts and what does not restart. So there's nothing else, Adarsh. You have to take these hits and move on and build back.

Adarsh: And last question, Rajeev, is, you did speak about the cost, right? Part of it comes back. Can you just elaborate a little bit on part that doesn't come back? How that changes, cost to income, maybe next year, over a 2-year period? You've obviously quantified some numbers on what the structural and evident cost numbers are, but how does that really change cost income for over a 2-year period?

Rajeev Jain: So we are, Adarsh, one of the lowest Opex to NIM at 31%. Today's number is anyway transient. So let's say, it'sopex to NII is at 28%. It will slowly go back to, let's say, 31% over the next 2-3 quarters. But fundamentally, as we deliver 3-in-1 financial services for us as a company, do I expect the second half of the year could look sub-30%? The answer is yes. As we fully optimize that frame in '22/'23, can the number go to 29%? The answer is yes. We are not doing this as a hobby. It is the way we will conduct business. Cost of doing business will go down and the business that we do with customer will go up. Both will create a disproportionately lower OPEX.

Adarsh: Got it. So which broadly comes back to the point that as you iterated in the presentation that COVID, because of changes on borrower level either less leverage, more leverage, we're not seeing the reason to believe that income, your forecasted ROAs long-term changes materially, except for this 1-year of hit?

Rajeev Jain: Yes. Answer is yes. Franchise is very large. Distribution is very deep. We as management are surely but steadily going to go back to growth. Those are 3 important dimensions for us to just forget about 2021 as we step out of it.

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

Kuntal Shah: The questions I had was, what would be the amount of interest on interest on the moratorium should the case be adverse against you? Can you throw some color on 2-wheeler and 3-wheeler business, which has seen some deteriorating matrices? We understand that the 3-wheeler guys with business would be not paying back, but just your texture and view on it? Also, are you considering any additional credit card partnerships with any bank? And can you fund a 3x the balance sheet size without banking license? And lastly, the question is, we noticed 2 things. We have been extremely cautious not only as you put brakes on the foot, but you have also engaged emergency brake and your numbers of provisions itself are same size related to the other lenders whose balance sheet chart is probably 7x larger than yours. So are you a canary in the coal mine? Or are you just overcautious? What's your view, and what's your team view?

Rajeev Jain: Look, interest on interest as government has given in its affidavit to the Supreme Court, have said that they would pay all financial institutions interest on interest. We are waiting for clarification. Is that part of affidavit that they would bear the cost? It seems, the answer is yes. To whom? How? What? I think we have to just wait for clarity. The entire financial system is waiting for that clarity That's point number one. At this point in time, we don't have a view on becoming a bank. I think as the balance sheet grows, let us grow to 2 to 3x. We're all here. We can always make a decision at that point in time. Question number 3, card partnership. I mean, the business has now started to grow again. As I said, it's back to 75% of last year's volume at this point in time. I've said we have a strategic and important partnership with RBL. But I've also said, we want to be a dominant card issuer in this country. It may require another partnership. At this point in time, given there's a significant dislocation, we are in a pause mode on that. You have to break 2-wheeler and 3-wheeler. They are the customer who is really at the bottom end of the pyramid across the ecosystem, across all lenders. In that, clearly 3-wheeler has performed much worse. If there are 2 part of our book that may go into restructuring because of the nature of the business, one is a lot more mortgage customers will go into restructuring, and 2-3-wheeler book. I essentially see these 2 customer segments for different reasons. The reasons is one, a productive asset, mainly 3-wheeler sells as a connecting point. If local trains in Mumbai run, autos will run and so on and so forth. They give you a point-to-point necessity. Until they restart, we have no option but to provide restructuring option to those customers. Mortgages, if there is a tail risk that emerges, given it's a large part of clients or a customer's monthly outflow, we may see restructuring requests. That's really what COVID-19 has created. We don't have an option. It's a crisis leadership test. Anybody who's working has to go through this at this point in time. There is no option. I think the management has rallied extremely well. There is a third thing. We also pressed the clutch, doing transformation. So clutch is about transformation, emergency brake is about credit costs and acceleration is about restarting. We're doing all 3 with 2 legs. You can imagine, but that's really the way it is. I don't think it's yet to change, at least, for the next 4, 5 months. You have to go through this.

Moderator: Thank you very much. Next question is from the line of Mayank Bukrediwala from Franklin & Templeton. Please go ahead.

Mayank Bukrediwala: I wanted to check about the cross-sell portion of our business. So you've indicated many times, it's about 60%, 70%, but what I wanted to specifically check is, how much of that cross-sell happens onto a B2C, that is your personal loans platform or to your mortgages platform? As in, of the 23 million cross-sell customers, how many customers take a personal loan or a mortgage loan in a year from here? And the second question is that you've declined your cross-sell franchise a bit. I missed the criteria on how you have sort of declined the cross-sell franchise? And if we have close to 8% of our customers in morat in September, can that decline potentially be larger? And the last question is on your online presence. Where are we in terms of online financing presence? And how critical has it become to increase that?

Rajeev Jain: Let me take the easy one, it's possible that the decline may increase. It's very highly likely. As bureau data becomes available, we will run a scrub on these clients. So that's very much possible that we may see decline. Could it be 0.5 million customers or 1 million customers? It's very much possible. It's difficult to put a finger on it at this point in time. We have to just wait for bureau normalization. Some of it, Mayank, will come from further flows at our end. More of it will come from bureaus scrub because we have 2 measures: has he paid me and has he paid the system. Has he paid me or not paid me that's become largely clear, but how many of them have not paid the system. 75% of our customers have bureau scores. It will become clear by November end. So we may see some reduction there. It's very much possible. Cross-sell is a little more complicated answer, differs by product, differs by risk, stance and strategy at that point in time. The entire 23 million is available for cards business, mortgage business, personal loan business, insurance business, all businesses. There is an overlay that emerges as a result of risk and as a result of a customer wallet. Many aspects that go into it for determining it. So let me simplify the conversation. Out of these 23 million customers, how many am I ready to give personal loan to? Let's say, if you were to ask a question. 10 million customers I'm willing to give a personal loan today. This number was 11.2 million. We were ready to give personal loan to 11.2 million. Today, we are ready to give to 10 million customers across our urban and rural franchise. To 5 million people, we are willing to give a credit card. So that's really how we stack up? Online/offline. Online is fundamentally a function of the size of the franchise. We have deep relationships, both with Flipkart and Amazon. It's a function of franchise converted into EMI card. That's really what it is, and that works. So the franchise grows, that business would grow. And as that business grows, its share with the e-com players would grow. So that's why it's linked to the franchise rather than linked to growing e-com or degrowing e-com. And we do foresee even in quarter 2, where, as I said, July-August stance was let's just be very conservative or cautious, September was, let's get into business. We still added 1.2 million customers even in a quarter like that. So we will grow a franchise, and as a result, e-com will grow.

Mayank Bukrediwala: Got it. And just one very small follow-up to this. You said you've got about 1 crore of customers that you want to give a personal loan, too. My question is also that to how many of them are you actually able to give that loan to today? And can that number increase?

Rajeev Jain: On a rolling basis, annually, 10% land up taking. If I take a 10 million number, pre-COVID-19, we were doing 1 million personal loans, plus/minus 100,000.

Mayank Bukrediwala: Got it. Perfect. And would that be like the peak number, 10%?

Rajeev Jain: No. That number will fundamentally multiply as 3-in-1 financial services come. We are not able to reach 40% customers as they are DNC. We cannot even reach out to them. So there are various layers of this frame.

Moderator: Thank you very much. Next question is from Sandeep Bapat. Please go ahead.

Sandeep Bapat: Just in terms of the bounce, sort of the initial bounce or zero DPD, any color on where it's starting and then it gets to sort of 8% 30 DPD? Any color on that would be helpful?

Rajeev Jain: So the answer is a little convoluted, please bear with me. Are they coming down? Answer is yes. But are there pre-COVID-19 levels? They cannot be, so that you understand my point that the portfolio bounce is a function of those who are sitting in stage 1 and 2, 3, until they go into charge-off, they will continue to be banked. So that's one part of the conversation. Second is the new customers on top, who are at much lower risk, so 2 ways it will go back to pre-COVID levels. The fresh customers default much lesser, in general. Depending on the product, the fresh customers default at much lower rate as they mature into the cycle, depending on the type of loan their bounce rate increases. As we are aware, April, May, June, nothing happened; July, August, September, we are at 50% level. So the top of the funnel is small. On top of that, there is a stock sitting there, which has just exited moratorium and gone into 30 DPD. So when both these happen, are we seeing that they are at lower than pre-COVID? The answer is yes. Let me give you an example. Will you see this 92% number that is sitting here in CD business on Panel 47, by March, go back to 98%? The answer is yes. You will see it back at 97.5%, 98% because these are 8-month loans, they would have watched, top of the funnel would have been filled, bounce rates would look better; in fact, before you see this, by February itself, we will see the current bucket bounce rate of this portfolio start to look similar to pre-COVID. So it's portfolio by portfolio, Sandeep, rather than a general point. Are they going down? Of course, they are going down by every month. Just that had to naturally happen any which ways.

Sandeep Bapat: Understood. Just one followup on that. Pre-COVID used to be around 12%, would be the north of 25% around that, though, or where would be roughly?

Rajeev Jain: So I go back again to the earlier 2 points. Look at this, until these 8% clients sit there, these 8% anyway are going to bounce. If the new book is at, let's say, 6% or 7% or 8% bounce that will be additonal. So Sandeep, I can give you a number, but it's not material. It's not relevant. That's all I'm just trying to articulate.

Moderator: Thank you very much. Next participant is Gaurav Kochar from Mirae Asset. Please go ahead.

Gaurav Kochar: Three questions from my side. First, on your flexi loans, what would be the average principal moratorium given to the borrower?

Rajeev Jain: So there are 3 kinds of loans we offer. You could get a term loan. You could get a drop line flexi or you could take a flexi. Flexi is nothing but like a line, you could use it by drawing down and paying down, at a design level. Based on products, some of them come with a first-year interest repayment only, some of them come with 2-year interest repayment. So some come with 6 months. It's based on the feature that is created by the need of a product, nothing else.

Gaurav Kochar: Right. Sure. And you mentioned around 43,000 crores were the flexi loans outstanding as of September. So is it fair to assume that a large part of this was under principal moratorium in the month of June and all?

Rajeev Jain: No. Let me make a different point. We blocked 5,500 - 6,000 crores of lines on some of these customers at the peak of COVID-19. So it's a reverse point. We have released them. We have started now to release that they were undrawn. We have restored that back to normalcy as we move slowly. This may go through some degree of change even as bureau data emerges. Some of them who may be today unblocked may get blocked. This is a quarterly refresh run that we run. So that's not correct.

Gaurav Kochar: Sure. Any rough idea as to what percentage would be end of principal moratorium if you have back of the mind? Any number that you'd like to comment?

Rajeev Jain: I don't have a number like that. Sandeep, do you have a number like that?

Sandeep Jain: No, I think the recent loans in the last probably 8, 9 months would be under somewhat of interest servicing. My sense is that number will be less than 25%, but I don't have a number readily available.

Rajeev Jain: That's not a metric. So that's why...

Gaurav Kochar: Sure. Not a problem. Sir, my second question is on the stage 2 loans that you've disclosed, if I were to see, I mean, last 6 months between March and August, a lot of these customers were under moratorium and now between August and September, it's just been 1 month. So is there a possibility, I mean, in a worst-case scenario, wherein customers would have enough cash or liquidity to pay off one EMI, but what is the comfort on the sustainability of this repayment trend? So the 92% customers who have paid, broadly. What is the sustainability of the subsequent EMIs in the month of October, November, December flowing in? Sir, do you see a risk to this 8% going up is my question?

Rajeev Jain: You're asking this from a company which is taking 3x the loan losses. I think it's an important point for me to make. The risk model that we have said that we roll every month does take into account how many times the client went into moratorium. One month to all the 6 months, how is he performing, how are we seeing their efficiencies and how long are we taking to collect from them, even if they default, all of that by each line of business goes into the risk modeling frame. Tail risk, is it possible? In some of the businesses which are actually seen, let me make a point, a lot more who have returned to normalcy lot more quickly, I see a tail risk there. Do I see a tail risk in mortgages? Do I see a tail risk in some of our salary personal loan businesses? Do I see a tail risk in professional loans? I see. Because they have all largely reverted back to normalcy, but it is clear that aggregate economy will be smaller. It is clear that the current year things will contract anywhere between 10% and 12%. So if I trade the tail risk between the hits that we will take, and hopefully, as the economy recovers from the shock, we see recoveries, net-net, it should adequately cover.

Gaurav Kochar: Yes, sir. That's good to know. And my last question was regarding the growth. You mentioned in the second half, you will be cautiously growing the book. Maybe you mentioned around 5%, 6% of the alien growth in this year, which implies roughly 5% sequential growth in the next 2 quarters. So any segments for any customers where you would target this growth? Is it the existing customers or you want to make fresh acquisitions? Any color around where would the growth come from?

Rajeev Jain: It is data dependent frame. It defers product by product. It would also defer based on incoming data, in a way, it's a leap of faith to begin with, that we've done business in July and August. We became a lot more confident in September as you've seent. It is going to be, to the earlier response that we made, we'll continue to use clutch, brake and accelerator all 3 at 1 point in time over the next 5, 6 months to generate growth while ensuring the known blind spots left.

Moderator: Thank you very much. Next participant is Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: Three questions. So firstly, in terms of underwriting standards, we would have strengthened this across the board. So when we are seeing that in September, we are met to be almost 62-odd percent had it been the normal case where it would have been. And why would it be lower because of more centering of the norm. Second question is, incrementally, we are seeing bank kind of payment solution provider for maybe the EMI on the big cards and all. So is there any risk which we see in any of the, maybe the metro markets also? And third, in terms of fee income, if you can give more granular details, that quarter-on-quarter, if you look at it, despite the big gap in the volume is still flat. No doubt, year-on-year, the fee income has been quite robust for us. Maybe we are not seeing that uptick in the volume from a sequential business. So what would have led to that?

Rajeev Jain: Fee, OEM, there was the first question on?

Kunal Shah: EMI on Debit card.

Rajeev Jain: No that is OEM.

Kunal Shah: No, overall underwriting standard. Had it been like we have not strengthened it from what level of business we would have been back to?

Rajeev Jain: I understood your underwriting question a little differently that, let's say, if COVID didn't happen, what would the number look like, right? So let's say, if you took a consumer durable, you are a EMI card customer, in general, your bounce rate would look like 4%. Okay? Is it looking like 2.5%? Answer is yes. But as I said earlier, let me just caution that was on the July, August banking because it's a conservative stance that we've taken. As we release some of these actions we will see how it plays out. As I said to the earlier point, we will keep using clutch, brake and acceleration based on the way we see data. I think we always run the company that way. It just has to be a lot more volatile at this point in time for the next 3, 4 months. OEM payment solution providers, other lenders, it's a large market, it's a free market, this plays for everybody. They've all been there pre, they are there at the time of COVID, they will be there post COVID. I mean, we have to have a competitive offering to continue to have a 70% of OEM share, which we don't intend to dilute. They it dilute in July/August? The answer is yes. Was it a management decision? The answer is yes. If that was a management decision, the management decision, clearly, as we talk now and that is really where we have held over the last many years at 70%-72% of OE's share. Fees, as I responded to a few other people earlier, as we deliver 3-in-1 financial services, the share of fee as a result of product and customers should grow. It will be lot more bought or pull rather than push. So I would be really excited about cross-sell frame and products per customer as 3-in-1 financial service will get delivered.

Kunal Shah: So maybe in terms of the outlook, where should we see ideally fee to assets or maybe how should we look at it overall in terms of the correction once our 3-in-1 model also fix in? So how should we ideally look at it?

Rajeev Jain: Should we? That's Panel number 13, are we clear that if you knocked off COVID, in the investor presentation in Panel 13, that should we go back to 25%-27% AUM growth, 24% profit growth, a gross NPA of 140 to 170 basis points and a 3.5% ROA? The answer is yes. So will we go back to these 6 guardrails from a long-term standpoint that we have fundamentally created? The answer is yes. And that's really why we are frontloading loan losses, we are backloading growth. The objective is to go back to these long-term guidance that we provided in general to public market investors and we will go back there.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question for today. I will now hand the conference over to Mr. Karan Singh for closing remarks.

Karan Singh: Yes, on behalf of JM Financial, I would like to thank the senior management team of Bajaj Finance for joining us on the call today. Thank you, and goodbye.

Rajeev Jain: Thank you. Thank you all for patiently listening. Thank you.

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