"Bajaj Finance Q3FY14 Results Conference Call"

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ANALYST: **MR. KARAN UBEROI**

MANAGEMENT: **MR. RAJEEV JAIN MR. IAN DE SOUZA MR. PANKAJ THADANI MR. SANDEEP JAIN**

Moderator: Ladies and gentlemen, good day, and welcome to the Bajaj Finance Q3 FY 2014 Results Conference Call hosted by JM Financial Institutional Securities. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Karan Uberoi from JM Financials. Thank you and over to you Mr. Uberoi.

Karan Uberoi: Thank you. Good evening everybody and welcome to Bajaj Financials earnings call to discuss the third quarter results. To discuss the results we have on the call Mr. Rajeev Jain who is the CEO and Mr. Ian De Souza who is the CFO. May I request Mr. Rajeev Jain to take us through the financial highlights subsequent to which we can open the floor for Q&A session. Over to you Sir.

Rajeev Jain: Thank you Karan. Good afternoon to all of you. I have with me here Ian De Souza, our CFO, Pankaj Thadani who is our chief compliance officer and Sandeep Jain who is the head of our investor relations. Overall a pretty strong quarter for the company as you may have seen from the press release and from the investor updates that we have put on the website. Balance sheet ended as of December 31, 2013 a tad below 22500 Crores to 22461 Crores, profit after tax grew to 194 Crores, it included a 21 Crores accelerated provision on account of our two-wheeler business by bringing them to 90 days past due adjusted for that it would have grown by 30%. Overall most lines grew reasonably healthily except for the customers acquired. Customers acquired grew only 15% to 962,000. It is for the second time which is sequentially which is Q2 and Q3 that the number of customers acquired have actually grown below 20%. Assets under management grew 33%, on balance sheet AR grew 32%, loan losses came in pretty strong. Adjusted for the one time 21 Crores number loan losses would have otherwise grown only 14% and as you may have seen from the investor presentation that we have put on the website all businesses have largely actually improved their performance sequentially or on a year-on-year basis, so this has been a reasonably strong quarter for the company despite a pretty I would say stressed external environment.

Some texture on businesses; the two-wheeler business degrew actually by 15%, it degrew 7 to 8% in Q2, it degrew 15% in Q3. Three wheeler businesses as a result of our head strategy continued. Two, two and a half years ago, our market share used to be 4-5%, that is now gotten up to 20%, it is acting as a reasonable hedge to the degrowth in our two-wheeler business given the slowdown that the industry is witnessing. Consumer durable and lifestyle grew in a healthy manner as a result of network expansion and as a result of adding new product lines either through lifestyle or through digital product financing that we embarked on in the beginning of this year. They grew 25%. SME businesses, which is largely mortgages aided by new channels like SME Cross Sell or our home loan salaried business that we launched in January grew in a very healthy manner. The overall mortgages business on a year-on-year basis grew over 110%, lab business grew around 70-75%, and home loans grew on a small base close to 110%. The SME Cross Sell business which is a cross sale business to existing customers also grew upwards of 100%. Business loans which are in unsecured business grew only 38-40%. LAP business grew 20-25%. The infra and infra commercial businesses continue to grow. Both the infrastructure financing business and the construction equipment business degrew sequentially as well as year-on-year basis. Auto component business however continued to grow in a steady manner. Rural lending business, an initiative that we started in June we have launched second phase of our branches, as the overall second phase of launch in January 1, and our total coverage is now over 67 towns in rural Maharashtra. Interest cost remained pretty steady despite the liquidity squeeze in Q2 we saw no increase in our cost of funds in Q2, even in Q3 we have actually seen no increase in our cost of funds. If you have seen the press release you would observe that our interest income grew 31% as a result of the balance sheet growth of 32% but interest expenses grew only 28% demonstrating that the overall cost of funds despite a very poor money market environment has remained pretty steady through Q2 and Q3. We have an assignment strategy in our treasury. As part of our treasury strategy we passed close to 200 Crores of assets on assignment basis in Q3. Gross NPA and net NPA remain pretty healthy. They were absolutely steady between Q2 and 3 versus on a year on year net NPA moved 3 basis points from 20 basis points to 23 basis points largely I would say steady. Collection efficiencies actually improved in Q3 on a year-on-year or on a sequential basis. Distribution products remain strong. The life insurance business we are clearly the second largest bank assurance partner for Bajaj Allianz Life of whose corporate agent we are. We would this year also be the largest bank assurance partner for health insurance for Bajaj Allianz General, so distribution of the income continues to grow in a healthy manner. We already have a tie up with CRISIL for SME. We just launched a new digital online financial fitness report for our customers to help them with better financial counseling which comes with a small fee, so overall I would say pretty strong quarter. We have just been ranked among the top 25 employers for FY 2012-2013 by Aon Hewitt as a company, so that brings me to the end of just early comments. We are ready to take questions now.

Moderator: Thank you very much. We will now begin the question and answer session. Mr. Ashish Sharma, please go ahead.

Ashish Sharma: Good evening Sir and congratulations on a good set of numbers. On the growth prospects should we sort of read too much in to this Q3 numbers because I think in the earlier interactions you had mentioned that volume growth is little disappointing but the value was strong but overall if you see the Q3 numbers have been quite good, just your perspective on that?

Rajeev Jain: Ashish, I would say we are positively surprised. I would continue to caution to add that we see both consumer discretionary and nondiscretionary being slow. I would guide to say that I don't think Q4 will be that strong at least from where I sit. At this point in time, structurally we are seeing things slow down, as I said earlier in the commentary that unit growth is still at 15% for two quarters in a row that does not make me happy, my outlook would actually be neutral, neutral to negative.

Ashish Sharma: In terms of AUM growth guidance now you are already at 33% and year till date we have done around 26%, do we sort of stick to that 20-25%?

Rajeev Jain: Yes, it is likely that Q4 we would grow, AUM would grow, I would say, so we had said in the beginning of the year we see the AUM to be around 24000 Crores, I think we will deliver that on a full year basis.

Ashish Sharma: Secondly would be specifically on the consumer durable, do you have a sense that post that EMI circular by RBI things have become more competitive, there is less competition for NBFC because I think banks have totally vacated that segment.

Rajeev Jain: We have seen no impact actually, neither did we see a spurt in purchases or did we see, we have been structurally growing the business in a sustainable manner through network expansion, through identifying new revenue pools, so we haven't seen any big change. Lifestyle business and consumer durable business put together grew 25% which is a very good growth rate despite a very difficult environment, our assessment is consumer durable as an industry probably grew 9-10% in the current quarter as a result of adding new product lines like digital products, adding lifestyle products to our overall product range, adding 10-12, 15% network in the current year I think some of these pieces have delivered a growth of 25% otherwise demand environment remains very, very weak.

Ashish Sharma: Okay and for FY 2015 would it be too early to comment or?

Rajeev Jain: Yeah it would be very early to comment, I would wait for Q4 to make a comment, but having said that I would say to you that a 20% asset growth and a net income growth we would grow but anything over and above that could be difficult to ascertain at this point in time.

Ashish Sharma: Lastly on the credit cost have we sort of done away with this accelerated provisioning?

Rajeev Jain: We are fully done away. We are fully done with the. All our business are for 90 days, so 95% plus balance sheet is 90 days, so we started this exercise two to two and a half years ago on systematically moving all our businesses in to 90 days. We are largely there now.

Moderator: The next question is from the line of Ritesh Nambiar from UTI Mutual Fund. Please go ahead.

Ritesh Nambiar: Good afternoon. Wanted one clarity on this auto loan role of yours we are seeing some recovery, some growth is seen but on the disbursement side you seem to have degrown on that segment, if you could clarify the same?

Rajeev Jain: No. We have not commented anywhere on our auto loan growth, overall we have only degrown and the volumes have degrown by around 15% on a year on year basis, so we are continuing to see a weak demand environment as far as two-wheeler business is concerned.

Ritesh Nambiar: Is it because of higher competition from banks or any other players or in general that belongs to the bottom 5% which you mentioned in the TV earlier on?

Rajeev Jain: Our penetration rates have remained steady at 30%. We have not grown penetration, we think growing penetration from where we are at 30% is a riskier proposition, that is our assessment, may or may not be correct and that is why we have held a number between 23, 28, 30 in the ballpark range of between 28 and 30%, so until the overall demand comes back for and we are a captive lender, until the demand comes back you may not seen that pool of our business growing.

Ritesh Nambiar: Secondly on SME if you could touch base on the government austerity and the impact on SME?

Rajeev Jain: Our overall portfolios, it is about the choice of SMEs that you choose, our SMEs are largely customers with 10 Crores, 250 Crores of turnover, and we try and stay away as much as possible from people who deal with the government in general. If you see our investor presentation you would see that whether secured on unsecured businesses we have actually seen improvement in Q3, either they are steady or there is an improvement actually, but is the overall liquidity situation tight, when I say liquidity situation in general in the economy, the money supply, is it tight, yeah, our asset price is not rising as much as they were rising earlier, yes but given our overall size to the overall banking system we can continue to find growth opportunities and grow in a steady manner. Our large part of our SME businesses has contributed to the mortgages which are one, they are collateralized, two, on an average they are asset recovery two times, two or 1.8 or 1.9 times which means LTVs are 50%, they are backed by cash flows, cash flow assessment of clients who are borrowing and in general we are conservative in the way we lend, I think as a aggregation of all these four have helped to make sure that we remain out of trouble in the SME businesses.

Ritesh Nambiar: Just on this collection efficiency number which is showing improvement it is not a reflection of economic realities you are saying or it is more of the efforts which you have put in?

Rajeev Jain: Two, three things, I think since October we are not seeing default rates rising. When I say default rates I mean bounces, we are not seeing defaults rate rise. As a company we present close to 22-23 lakh customers in a given month. We are a pan India company in 115 odd locations, so we represent in a way the state of economy if I may say so, given that we are banking 2.2 million customers in a given month. We are not seeing default rates rise which means bounce rates rise but those who bounce the effort to collect since January 2013 has been rising, so we have essentially and as a result in a systematic manner we have been investing and improving our collections infrastructure and as a result we are holding on to performance but for the first time in the last two months we are starting to see the bounce rates go down which is a reasonably good sign and I am hopeful that continues to improve or stay that way and we have invested in our collections infrastructure in the last 12 months in a steady manner to try and hold on to our overall collections performance.

Ritesh Nambiar: Just one request I wanted to make, if you could actually disclose your borrowing figure.

Rajeev Jain: Borrowings is around 17,900 Crores, close to 18000 Crores and 60% of that is from banks and 40% of that is from money markets.

Ritesh Nambiar: And the core interest income out of the total operating income is how much?

Rajeev Jain: We can write to you Ritesh.

Moderator: The next question is from the line of Manish Oswal from KR Choksey, please go ahead.

Manish Oswal: First of all the volatility and other operating income last few quarters some quarters there is a sharp pickup and some quarters there is a decline, so how to track this number?

Rajeev Jain: Second quarter was largely on account of the overhang in the balance sheet that you are carrying, even this quarter we are carrying but the number is much smaller, so in a way last quarter was an aberration not that it has become zero because you have taken a strategic call to start to maintain a liquidity risk in the company, we are maintaining that but it was a much larger spike than general, so that is first point, the second point would be rest is largely on account of penal income so on and so forth, you can read it as a normal go forward steady in other income other than Q2 spike that you saw.

Manish Oswal: Could you take us through your yield movement and cost of funds movement during the quarter?

Rajeev Jain: It has been pretty steady, we have not seen any spike in our pricing nor have we seen any spike in our overall cost of funds, so as you can actually see the interest income grew 31% and interest expenses grew 28, so in a way our cost of funds and as a result the NII grew 33, so in a way I could argue that we saw an improvement in our interest cost in Q3, so we have been pretty steady in Q3 on overall interest cost.

Manish Oswal: Lastly you said in initial remarks the consumer discretionary, non discretionary slow and you are expecting quite a fall would be shocked, so my take is if you look at the AUM growth and disbursement for this line item it is very, very strong, given the 15% what is the volume growth or whether the ticket size increasing in that space that is driving your overall AUM growth, what is happening there?

Rajeev Jain: AUM growth has largely come from growth in SME businesses that is point one, two yes the ticket sizes have been stronger than we expected it to be, so our average ticket size used to be 27000 let us say if I take consumer durables it is coming at 28000, 28500, and as part of our strategy to continue to upsell to add products like VAS which is value added services it is helping us hold our ticket size or do much better on our ticket size but the inherent unit demand is demonstrated by the unit growth, the unit growth for the two consecutive quarters has been 15% which is very, very soft is what I would say, so we are doing things to try and grow AUM but the underlying demand in environment I would say is very, very soft.

Manish Oswal: Lastly one small data point, could you give the average ticket size personal loans, mortgage and loan against security?

Rajeev Jain: Average ticket size in loan against property would be around 2.2, 2.1 Crores and average ticket size in LAS would be 85-100 lakhs, personal loans, business loans average ticket size would be 18-19 lakhs and our salaried personal loans would be between around 4.5 to 5 lakhs.

Moderator: The next question is from the line of Rahul Vikaria from Axis Mutual fund, please go ahead.

Rahul Vikaria: Hi, I just wanted a break up of our LAP, LAS and personal loan book?

Rajeev Jain: We don't do segmental reporting Rahul, you can separately engage with Sandeep to understand it but we don't essentially do segment wise reporting on the balance sheet or on disbursement.

Rahul Vikaria: Could I get a number on the unutilized bank lines for Q3? **Rajeev**

Jain: 18000 Crores, so 60% of the balance sheet was from bank lines. **Rahul**

Vikaria: What percentage of our bank loans have we understand in 60%? **Rajeev**

Jain: We would have close to today another 4000 Crores of undrawn lines?

Moderator: The next question is from the line of Hiren Dasani from Goldman Sachs, please go ahead.

Hiren Dasani: Hi Rajeev, how much of the other operating income is the fee income from insurance or cross sell or the others?

Rajeev Jain: It has remained in line with the past quarters, with health insurance coming in that number is stronger in that sense on a year on year quarter-on-quarter basis with Crisil coming in as well but specifically we don't disclose it.

Hiren Dasani: But would it be fair to say that other than the treasury income in the other operating income line bulk of it would be the fee income?

Rajeev Jain: No, there is penal income that is there which is the largest item actually, bad debt recovery is another item which is there, so there are set of items which are there as well.

Hiren Dasani: No fee income is reported in the interest income line, right?

Rajeev Jain: No.

Hiren Dasani: Now all our balance sheet is on 90 DPD basis, we don't have to make any?

Rajeev Jain: 95% of our balance sheet I would qualify that, actually less than 5%, the infrastructure business alone is not 90 days is what I would say.

Hiren Dasani: Do we intend to bring it that as well to 90 DPD?

Rajeev Jain: Yes, sometime in Q1 or maybe in Q4, but its contribution of the balance sheet is reasonably inconsequential, so it really does not matter.

Hiren Dasani: There we don't have major NPA as well, right, so?

Rajeev Jain: Even if I was to qualify today or 90 days I don't have, so I am not holding it because of that.

Hiren Dasani: From P&L perspective it should be neutral event?

Rajeev Jain: Yes it is a neutral event from a P&L standpoint.

Hiren Dasani: On the LAP side obviously we have been able to grow very well and so far so good but where this growth is coming from in terms of more cities, more branches, and higher productivity can you give some figure there?

Rajeev Jain: Two key drivers, more network and more channels, we have created in the last 18 months two new channels one being the SME cross sell channel, that is now contributing in the LAP business to around 15-16% of monthly growth, the second piece is we separated our direct channel and indirect channel, so that is now contributing to 20% of the business overall. The third is the network expansion. We are now in 59 cities across the country if I am not mistaken.

Hiren Dasani: Versus let us say a year back?

Rajeev Jain: Versus a year back we were in 41 cities.

Hiren Dasani: 40 versus 60?

Rajeev Jain: You see in the presentation SME business is 46 cities plus 34 spokes, now this is where all my what we call BL businesses are, so our go-to-market strategy in SME we go business loans first because the average ticket size exposure is 17-19 lakhs, though the customer is same, then we follow up with LAP, then we followup with home loan, so that is our go-to-market strategy, first is consumer durable, it gets followed by personal loan cross sell, it gets followed by BL, it gets followed by LAP, it gets followed by home loan self employed that is our go-to-market strategy with every new market that we open, you will continue to see 12-15% probably little more network expansion on an ongoing basis, just a point I may want to qualify is that all our SME businesses only open in markets where I have existing branches and experience in the market, so all of them are a subset of the sales finance 112 branches that I am in, so eventually our aim is that all our businesses should be in all 112 markets, of course this 112 itself grows on a year-on-year basis by 12-15% but eventually we would want all our businesses to be in all the markets.

Hiren Dasani: Any customer segmentation remains the higher end of the HNI or whatever you want to call it?

Rajeev Jain: If I look at the same chart of our distribution whether it was 15 cities in FY 2010 where our average ticket size was 2.1, 2.2 Crores even today in LAP my average ticket size is 2.1-2.2 Crores, so we are not diluting in any manner the segmentation just because we are moving to so called smaller markets.

Hiren Dasani: But in those markets are you finding properties which are 3-4 Crores worth properties?

Rajeev Jain: I wont generalize, you are in that sense right, we do track it at tier 1, tier 2 and tier 3 level but the drop would not be from 2.1 Crores to 75 lakhs, the drop would be 2.1 Crores to 1.1 Crores, so our expectation is at each new market must deliver 1.8 to 2 Crores of new loans in a month let's say in LAP business for an example, so he has to essentially find one or two customers in a given month.

Hiren Dasani: This remains very strong credit product as well in terms of credit cost and all?

Rajeev Jain: The numbers are there for you to see, in a high growth business even if I look at it through vintage lens we are in a pretty strong position as well is what I would say, because as I keep saying we are not doing pure collateralized lending, it is essentially the underlying assessment of the clients cash flow is an integral part of assessment framework and that has ensured that in the last six years we have seen the numbers remain between 99.8 to 99.9.

Hiren Dasani: Lastly how does this move towards the LAP or let us say more of SME business as a percentage of overall balance sheet how it is reflecting in terms of your ALM?

Rajeev Jain: ALM one of the important things is that while the product is a 10-year product we see because there is no prepayment that we charge and the prompt prepayment benefits that we give to clients the average age that we are seeing from a behavioralized maturity of the portfolio we are not seeing the portfolio as more than three, three and a half years, we have a different challenge we would like the portfolio to last longer than three, three and a half years, that is one part, that is one data point that I may leave with you, the second point and as a result, so on a behavioralized basis as a result of this growth our balance sheet used to be, my asset balance sheet used to be 20-21 months let us say 12-13 months ago, 15 months ago, today I said 24-25 months, okay because of it’s growing contribution but even liability side of the business there are up to 24-25 months, so we are taking no incremental risk as a result of growing this longer but as I must caution it is the behavioralized maturity and if you have not compromised on the segmentation then the behavioralized maturity should not throw any surprises is what our assessment is.

Moderator: The next question is from the line of Kaitav Shah from Anand Rathi, please go ahead.

Kaitav Shah: Thank you, first of all congratulations on your good numbers. My question is regarding the rural roll out, I can see that there is a good pickup there, how do you see this business panning out for the next two years maybe?

Rajeev Jain: Two years would be a short time, we are now in 67 towns and villages, we will open 67 more next year in Gujarat, we have now covered largely rural Maharashtra, next year we will cover rural Gujarat, we will open 67 more, we will take a call whether we will open at a time or we open in phases or we open this year, having said that so if we end this year with a balance sheet of 24000 Crores as I said earlier in the call and that grew 20% which means 29000 Crores in balance sheet we don't foresee this to contribute more than 3% of the overall balance sheet, I think 1.5-2% because these are lower tenure products, smaller ticket size businesses, so probably 2% would be a fair ask or a challenging ask, our view on this business is a five year view and not a two year view but in five years time we think this business would be a reasonably large profitable business for us as a company and should contribute to 5 to 7% of the balance sheet in five years time.

Moderator: The next question is from the line of Amit Ganatra from Religare Invesco, please go ahead.

Amit Ganatra: First question is basically on growth and portfolio mix, if I look at the segment, now SME business from 43% is already at 50%, where do you think basically overall mix is headed?

Rajeev Jain: If you see Page A it talked about the mix. The consumer is at 40, SME is at 52 and commercial is at 8.

Amit Ganatra: So now incremental SME will not keep on inching up?

Rajeev Jain: On balance sheet, off balance sheet may change but you wont see it inch up, we don't foresee that, if we do SME inch up which is a very likely scenario your question is absolutely correct, we would take it off the balance sheet very, very clearly.

Amit Ganatra: No but then as a percentage of AUM then it will still basically contribute?

Rajeev Jain: As a percentage of AUM it is likely that 50% could become 57-58% in the next 12 months.

Amit Ganatra: Okay, so that will continue to be the growth driver.

Rajeev Jain: Yes, it will be. It is an important point that I must make that increasingly our view is that if we do not have 8 to 10% market share in a business that we are in or a billion dollar size of the business we don't want to be in that business, now if you look at durables we are very strong we have double digit market share, two-wheeler we are the largest two-wheeler lender, unsecured personal loans and businesses loans we are among the top 4 today in our assessment, mortgage our overall market share is around 3-3.2%, we estimate this year the industry to be around 2,40,000 Crores, we would do around 8000-8500 Crores of origination in the full year, we want to take that to 8-10% in the next three to four years. A large part of that will come from SME side of the business.

Amit Ganatra: When you say mortgages basically you are saying total including basically new as well loan against property?

Rajeev Jain: Yes, there is a huge LAP of 30-35000 Crores yes that’s correct.

Amit Ganatra: Because in LAP you would be having a significant market share right.

Rajeev Jain: LAP we would be at 14-15% but I don’t want to be large part of a small thing, I want to be large part of a large thing.

Amit Ganatra: Does that mean that new mortgages also will now grow over a period of time?

Rajeev Jain: They are growing, the moment we launch HL salary the growth rate has increased, that is one; in first quarter or second quarter of the next year we will launch what we call PSL home loans which will complete our overall mortgage products suite.

Amit Ganatra: PSL meaning?

Rajeev Jain: Loans with less than 25 lakhs is what qualifies as priority sector, we will talk about it as we launch it, and sometime in Q2 of next year is when we intend to launch the business.

Amit Ganatra: But basically mortgages will be an important growth driver for you along with SME?

Rajeev Jain: Yes definitely.

Amit Ganatra: Second question is the borrowing number that you mentioned this basically includes assignments or this is the pure total borrowing like 17900 I think that is the number?

Rajeev Jain: Yes, 1000 Crores is the total assignment; 900 Crores is assignment and 18000 Crores is the borrowing on balance sheet.

Amit Ganatra: Okay so this 17900 is the borrowing on balance sheet, it is not included in assignments?

Rajeev Jain: That is correct.

Amit Ganatra: The third question is that you mentioned that now basically 95% of the balance sheet is NPA, now is if that that provisions are provided post 90 days or NPA also now is getting recognized post 90 days?

Rajeev Jain: No NPA is not getting legitimized because that is apples for apples, your question is correct, that 1.15% the accent is on 180 days.

Amit Ganatra: But the P&L is basically bearing that hit?

Rajeev Jain: Yeah the hit is being taken in the P&L, yes that is correct.

Amit Ganatra: So P&L is now 95% of the balance sheet whatever hit was supposed to come for 90 days recognition norms that P&L is bearing that hit?

Rajeev Jain: I want to qualify one more thing that at 90 days we are not providing what RBI says. We are providing far in excess of what RBI says at 90 days, so if you see the page 22 on our website presentation RBI would say on a consumer durable loan provides 10%, I am rewarding 75.

Amit Ganatra: That we are aware, so now basically this is the change.

Rajeev Jain: In bucket four I am providing 50 and I am fully charging off the asset in 12 months, so whether it is a smaller ticket or larger ticket product we are 90 days and significantly more aggressive than what RBI mandates as a minimum requirement.

Amit Ganatra: You mentioned about how do you upscale from, basically you start with consumer durables, then we try to cross sell and then you end up doing a business loan with that same customer, here the only thing to understand is that the growth for you in SME part of the business has been pretty strong and it comes at a time when overall economy is not doing that well, so people are struggling for growth, if you see the industry numbers so just to understand that this growth is large number of these customers are firs time borrowers or this is?

Rajeev Jain: No, none of them are first time borrowers. All these customers would have 2 Crores and above of banking lines, they would have multiple repayments, they have businesses running, so I can say in SME we do no business with a customer who does not have existing multiple banking relationships on assets and liabilities.

Amit Ganatra: Then this is very commendable, the entire industry is struggling with SME NPA but your numbers still are very strong as far as even nonperforming loans are concerned.

Rajeev Jain: The only thing I would say is we continue to remain very, very careful and cautious, at a whiff of a hint we do act on businesses, that does not mean we do not act on growth areas, so let me give you texture, I may do business loans but two years ago we started counter cyclical doctor loans, doctors are not impacted by what you are seeing in external environment, we started affluent salaried personal loans three years ago with incomes of 12 lakhs and above, they are so far not impacted because it is a skilled person rather than an unskilled person, so I think we continue to look for sweet spots of opportunity which are still not impacted by the larger market in general and act with agility to try and make sure that we seize the opportunity and if our experience is not good then we pull back very rapidly as well, that I would say is the only thing that we are doing and we are doing month on month to try and give an outcome to our shareholders.

Moderator: The next question is from the line of Umang Shah from CIMB, please go ahead.

Umang Shah: Hi Rajeev Congratulations on a very good set of numbers, just a couple of questions, one, as you mentioned that accelerated provisioning is already through and all the P&L impact has already come in but incrementally do we have any policy or a strategy in place as to how much a provision cover will typical remain, will it remain between 75-80?

Rajeev Jain: Yes we would like it to so between 75 and 80% and that is really where we have been among now for long period of time, only thing I would qualify in a given quarter we could have a given account which could move, which could be a commercial account let us say an infra account then you could see this go for a toss for the quarter and hopefully if it doesn't move to a charge off and moves back then you may see the PCR come back, see we are not required to publish PCR but we publish it because we think it is the right thing to do, so far because our businesses are largely retail and SME in nature and the balance sheet has grown to a point where if an account is 20-25 Crores it doesn't hurt us, anything more than that could move the needle, our view would be to maintain between 75 and 80%.

Umang Shah: Second question incrementally as you said that SME loans and mortgages is what will surely be driving the growth for us and now once we end the year with a 24000 Crores AUM obviously we become fairly sizable for that matter, so structurally is it that we would further see margin compression because incrementally the margins in these segments are not as lucrative as in consumer or are we try to imply that consumer will also keep pace in terms of growth.

Rajeev Jain: No, I think it is an important question and structurally I think our, if I was to use the word, our high beta has performed, businesses have performed exceedingly well despite a very difficult external environment that does not mean we are taking that for granted. In FY 2015 our approach would be to try and reduce the level of beta in our business model and as a result we intend to grow our lower beta albeit lower margin businesses faster than higher beta and higher margin businesses. Would it mean will we see a compression in margins, yes, but it will be a gradual move, it will not be a very sharp move but you will see the move happening in FY 2015.

Umang Shah: What would be compensatory for that whether opex will come off or you would see further headroom for credit course to come off?

Rajeev Jain: Yes we would see opex come off structurally the loan losses would not come off in FY 2015 but would come off in FY 2016 because there is normally a one-year lag, so you will see a gradual product mix change as a result a gradual operating expense change and followed by a loan loss change but in a gradual manner is what I would say.

Umang Shah: Fair point, just one last question that I have that in our loan against property and mortgages segment all loan closing happens through our own branches or channels?

Rajeev Jain: 70% of business comes from distributors, we want to bring that down to 50% in the next 15-18 months, so as I said earlier we have created a direct channel, we have created a SME cross sell channel in the company, we are investing in them, they are picking pace but the overall size of the business is large enough that it will take 15-18 months for it to get balanced with a 50:50 weight in the next 15 to 18 months time.

Moderator: The next question is from the line of Deepak Agarwal from Impetus Advisors, please go ahead.

Deepak Agarwal: I would like to understand the discussion regarding the NPA recognition, is it not on 90 DPD?

Rajeev Jain: It is a 90 DPD but on the page in the executive summary the question that was asked what you see is credit quality gross NPA at 1.15 that is on 180 DPD, now P&L flow through is on 90 DPD

Deepak Agarwal: So NNPA 0.23 is on 90 DPD?

Rajeev Jain: 180 DPD. Because the gross NPA is 180, net NPA has to be 180.

Deepak Agarwal: What is 90 DPD then, what do we do with that?

Rajeev Jain: The recognition of the asset which is let us say provisioning of the customer who has defaulted let us say three installments or three buckets is done at 90 days past due rather than 180 days past due. I am trying to understand the confusion in your mind. P&L impact is on 90 days past due whereas gross and NPA reporting is 180 days past due which is as per RBI requirements.

Deepak Agarwal: So basically including all the provisions that you made are you fully covered, how much are you covered on your NNPA on 90 DPD basis? Net NPA let us say is X are you fully covered, what percentage of that is covered by the provisions?

Rajeev Jain: If you would go to slide 22 of our presentation you would exactly see by business in which month do we cover how much that will exactly give you the treatment, so if I take consumer durable between 90 to 150 days past due we charge off to the P&L 75% of the principal outstanding and at 150 days past due we charge off 100%, so it is part through so on and so forth as you will see even in let us say loan against property we provide 15% on 120 days past due and so on and so forth, so it is exactly outlined on this slide.

Deepak Agarwal: This 80% coverage that you reported about that doesn't take in to account the 0.4% standard assets provisioning?

Rajeev Jain: No that does not take in to account.

Deepak Agarwal: And that also does not take in to account the accelerated provisioning?

Rajeev Jain: No it does not.

Deepak Agarwal: What is the cumulative accelerated provisioning as of now?

Rajeev Jain: First of all the standard asset provisioning cannot be added to accelerated or the provisioning coverage or to accelerated provisioning, on a 21000 Crores on balance sheet you can assume that number is 40 basis points, that is 100 Crores actually or 85 odd Crores.

Moderator: The next question is from the line of Srinivas Rao from Deutsche Bank, please go ahead.

Srinivas Rao: Hi sir, thank you very much, I just wanted to check with you, you mentioned something about accelerated provisioning on the two-wheeler portfolio, if you can just reiterate what exactly has happened there?

Rajeev Jain: If you see, as of Q2 if you see our investor presentation you would see on slide 22 that there was no three to five bucket 30%, it was only 6 to 12 60% what has come in new on slide 22 is 3 to 5 30%, for 90 days for whatever is the outstanding we are providing 30% of the principal outstanding and on 180 days past due we are providing 60% which means another 30% would get provided, so what we are doing at 60% of 180 days we are now doing 30 at 90 and 30 at 180, so when the environment starts to improve and the portfolio starts to improve drastically you would actually see lower provisions being taken in a reasonable manner.

Srinivas Rao: Okay and just to understand the reason for this provisioning is, is there any deterioration in the underlying portfolio or is it just that you want to be more pragmatic and conservative?

Rajeev Jain: We have been at this now for the last two and a half years, people have forgotten about the Usha Thorat committee recommendation but we have not, we think it is the right thing to do, 25 to 40 was in that direction, moving all our businesses to 90 days was in that direction, maintaining a 30-day cash balance position we are now maintaining 60-day cash balance maturities in liquid funds in that direction. We think those were right things for running a sustainably strong business, so we have been moving in that direction in a sustainable manner, so that is really what our approach has been and this is one of the last steps in that direction from a provisioning standpoint.

Srinivas Rao: Just one more question, you mentioned your penetration is 30% for the two-wheeler Bajaj two-wheeler which would probably be almost 90% of the total two-wheeler of Bajaj which are financed in the domestic market, will that be a fair assessment?

Rajeev Jain: The number would be 80.

Srinivas Rao: Is there any subvention scheme which is in place now or there is no subvention scheme at all in place?

Rajeev Jain: No subvention.

Moderator: The next question is from the line of Amit Ganatra from Religare Invesco, please go ahead.

Amit Ganatra: See your current portion in two-wheeler and three-wheelers have improved very sharply over the last two quarters and in the first quarter it had come down and you said that we will take certain steps, just wanted to understand what have you exactly done to ensure that this current portion improves?

Rajeev Jain: Significant investment have increased in the collections infrastructure, it has lead to increase in our opex that is one part, we have trimmed some of our geographical exposures in markets like Andhra, markets like Chhattisgarh and so on and so forth, in parts of UP, we have a DCC portfolio which is direct cash collection portfolio which used to be 45-48% of the incremental lending that is now down to 40-42%, so we have taken a series of actions to from an incremental ending standpoint and from managing the existing portfolio standpoint.

Amit Ganatra: The other thing is that mix basically in your two and three wheeler is now moving towards three wheelers, you see past experience in terms of credit cost different for these two segments?

Rajeev Jain: Yes it is different, it is substantially different but we worked on a little hybrid model, we did not enter in to this business until two, two and a half years ago because we thought this is a little more unorganized business, we are working with dealers very closely in what we call direct dealer financing business, so they are central to the overall three wheeler business strategy, we get a collateral on the three-wheeler plus we get additional collateral from these partners who are involved in the business, so it is a participation model, it is a risk participation and revenue participation model, so it has helped us to try and reduce the overall level of risk in managing the three-wheeler business.

Amit Ganatra: Are the yields also higher for you?

Rajeev Jain: Not much differential, net margin yes would be higher because a lot part of management of the cost is taken care of by the partner but not too substantial a difference.

Moderator: The next question is from the line of Mangesh Kulkarni from Almondz Global, please go ahead?

Mangesh Kulkarni: Sir our asset quality we have maintained so far but in the past we have guided for around say 60 basis points of net NPA, so are we reducing these guidance going forward and also whether this three-wheeler portfolio is qualifying for PSL securitization?

Rajeev Jain: Parts of the business, yes, would qualify but because the size of the business is small we have not looked at it that way but sometime in FY 2015 yes it is likely we would look at it, so that is one part, the second is what was it that you asked Mangesh?

Mangesh Kulkarni: About the NPA, earlier our guidance was around 60 basis points net NPA, we have so far maintained around 23 basis points.

Rajeev Jain: On a more serious note our intent is that the product profitability model takes in to account for a 17-18% ROE, between 40 to 50 basis points net NPA. We are doing better than that and as a result our ROA is higher and ROE is better, that is what I would say. That is the level of if I was the use the word suspension that is available in the business model that we can go down to and still not suffer as a company.

Mangesh Kulkarni: Sir in terms of our SME portfolio what will be the yields on the loans?

Rajeev Jain: We are priced very well as a company, I would say if you were to borrow a loan against property as a super affluent customer you could get it at 12%, 12.25%.

Moderator: The next question is from the line of Nischint Chawathe from Kotak Securities, please go ahead.

Nischint Chawathe: Most of my questions have been answered, just one thing, what would be the rate of interest on mortgage loans?

Rajeev Jain: Mortgage loans as I said LAP would be 12 to 12.25, on home loans if you were borrowing from us we will give you at and if you are doing a balance transfer we will give you a 10.25 on your core loan and top up we will give you at a higher rate so we will get at 10.50, 10.60, if you are self-employed borrowing from us you will get home loan at 11.25.

Nischint Chawathe: If I may ask what exactly is the strategy out here in that sense because you would not really make much money?

Rajeev Jain: At 12.25 the business is at 16% ROE business pretty comfortable, we have run that way now for the last 5.5-6 years but we have to be very clear that who your customer is and what the from a segmentation standpoint and true to it on home loans self employed and salaried must assign 80% of the balance sheet or down file it for those who would like a home loan business but cannot originate, so as a result despite being a low margin business for 20% or 10% of the balance sheet that you hold you have customer ownership with whom you can do more and the overall business starts to meet hurdle rate of 12-14% ROE as a result of holding 10, 15 or 20% of the balance sheet, so strategy is clear, if you can't down sell don’t do especially home loans but if you can down sell do as much as you can do.

Nischint Chawathe: But the 12-14% I believe is a post down sell calculation.

Rajeev Jain: Yes, yes of course, previous down sell calculation that number will be 5% in home loan salaried.

Nischint Chawathe: So you are essentially banking on cross selling?

Rajeev Jain: No it is an important point that if we cannot down sell we will not do but when I look at the level of hunger in the market and the ability to acquire good quality customer I see lots of people wanting to buy these assets, so I am not seeing a dearth of people wanting to buy these assets and it comes at no incremental cost to them, I have taken all the costs, I have to do two things, one I have to cross sell a lots of my other products that is one part and the second element I must down sell these are the two drivers and they will meet the hurdle rate of 12-14% return on equity.

Nischint Chawathe: Assuming some level of cross selling and I believe you are using some benchmarks out here what would be the net return that you would look out from that particular customer?

Rajeev Jain: As I am saying between 13 and 14% return on equity on the on balance sheet portion including fees and pretty clearly we are delivering it actually, we are quite confident that it is doable but one has to be very sharply focused on whatever I said for one to pull it off.

Nischint Chawathe: Some thought process to what could be like would you want to cap it at some particular percentage of your balance sheet or something of that sort or is it too early to discuss?

Rajeev Jain: Down sold really doesn't matter and assets under management is a number for you guys, from a shareholder standpoint it is on book so I would do as much as required as much as I can sell to the point that you made earlier and I agree and I am sitting today on close to 2000 Crores of assignment limit that I can assign and if my monthly burn is to the tune of, the only point that I would qualify I have to hold the asset for 12 months before I down sell and that is an important point.

Nischint Chawathe: These are all non PSL as of now?

Rajeev Jain: These are all non PSL we will launch sometime in Q2 next year even PSL home loans as a company.

Nischint Chawathe: And you are able to kind of sell down at what rates maybe if you could give some color on that?

Rajeev Jain: At base rate of the banks that I am doing assignment to plus I get servicing fees on top of it of the banks, plus I get a servicing fees on top of it of the bank, so if I do a 10.60 and if I do it with the bank at 10, 60 basis points is the differential that comes to me as long as the client pays and I have no recourse on the transaction.

Nischint Chawathe: You would also earn some fees from the bank?

Rajeev Jain: Yes the differential is to me, there is no one time fee, I just get the differential on an ongoing basis, so in a way let me articulate this to you, it is attractive even for the bank who is buying, if I was to use the word I am not doing a cute thing, I mean, banks are today willing to do at base rate they are doing it you can walk in to a bank branch of all the PSU banks in the country and get it at 10% and it would cost them to service you, it would cost them to acquire you, it would cost them to collect from you, they have to do none of it and they will get a 10%, so I am not doing a seasonal thing is what I would articulate to you.

Nischint Chawathe: And you would kind of put in something like 10% or so.

Rajeev Jain: Today our view is 20%, over a period of time it could come down to 15% and to 10% eventually. As we build reasonable credibility in the market on the quality of our portfolio.

Moderator: The last question is from Shyam Srinivasan from Goldman Sachs, please go ahead.

Shyam Srinivasan: Thank you for taking my question just had one on slide 14 of your presentation, if you are looking at the cross sell now what we see in Q3 for the SME business.

Rajeev Jain: Shyam I will be very honest, in fact Nischint the previous guy, I am the culprit I should have spent a little more time on it, I told Nischint I will change the slide I could not but I will try and respond to your question, go ahead.

Shyam Srinivasan: What we have seen in this quarter is that the repeat sourcing for the SME business has jumped up quite a lot right and just looking at the numbers it is about 1000 odd Crores this quarter, so is this sustainable and lot of growth in SME seems to have come because of this as well, so is this a sustainable thing that you are seeing on the cross sell there?

Rajeev Jain: SME cross sell business I mean we are investing very deep as I said earlier on channels one is direct channel, so there are two channels which we are deeply investing in which is what we call our direct to customer strategy, one is an RM channel and another is direct sales channel, so these are two channels which we are investing in, both come and sit here, we would see 800-900 Crores is a very real number, yes in a quarter, you would see that number around 800-900 to 1000 Crores.

Shyam Srinivasan: Because the trajectory before that if you see has been around 500 Crores, so there has been like a 100% jump on a sequential basis.

Rajeev Jain: You would see this number more in the region of and it would grow next year is what I would say and this is better customer, this is also lower cost customer, not in the interim because I am investing in the channel but sometimes from the second half of next year it will start to be more optimized cost model.

Shyam Srinivasan: Now on the SME business you have reached three products.

Rajeev Jain: We have also created a new channel separate channel in our business loans business called blast which is an analytics driven business loan customer of ours so we have created that as a new channel which is (indiscernible) 1.6.17 that we have created, so three new channels have been created focused on existing customers in the last nine months but they are starting to show significant results in the last four, five months and you will see it grow.

Shyam Srinivasan: Now you have reached from the SME side at least three products per customer at least on the 24 month side and we have a benchmark of about 5, so is there still juice.

Rajeev Jain: Yes, there is significant juice both for assets, we are launching day after tomorrow because we have got board approval today the term deposit business, that will start to over a period of time in the next 9 to 12 months it is a first anchor wealth management offering, so whether it is assets or liabilities five products is overall financial services products, today we are offering loans to life insurance and general insurance, from day after tomorrow onwards we will offer retail term deposits, sometime in the third quarter next year onwards we will start to offer investment products as well so there is enough to go, long way to go.

Moderator: I now hand the conference over to Mr. Karan Uberoi for his closing comments.

Karan Uberoi: On behalf of JM Financial I would like to thank Mr. Rajeev Jain and Mr. Ian De Souza and Mr. Sandeep Jain and all the participants for joining us on the call today. Thank you and good bye.

Rajeev Jain: Thank you Karan. Thank you all.

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