



“Bajaj Finance Limited Q1 FY 2014 Earnings Conference Call”

July 19, 2013



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INSTITUTIONAL SECURITIES

Moderator Ladies and gentlemen good day and welcome to the Q1 FY14 Earnings Conference Call of Bajaj Finance Limited hosted by J M Financial Institutional Securities. As a reminder all participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call you may signal an operator by pressing * followed by 0 on your Touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Karan Uberoi from J M Financial Institutional Securities. Thank you and over to you, sir.

Karan Uberoi Good morning everybody and welcome to Bajaj Finance's earnings call to discuss first quarter FY14 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 morning to all of you. We have already uploaded the detailed investor presentation on our website. I will largely be talking through that.

It has been strong quarter for the company. We recorded a highest ever quarterly profit at Rs. 176 crores. Return on Asset was a strong 4.1%, so reasonably strong quarter. Return on Equities held very steady in line with what we have delivered over the last three years. We just fell a tad short of 1 million customer acquisitions in quarter 1 at 970,000 customers. It was up 29%. Disbursements crossed Rs. 6000 crores for the first time to end at Rs. 6250 crores up 32%. Total income was up correspondingly. Net interest margins held largely steady. As there is loan loss provision there were two elements to loan loss provision. On a standalone basis the loan loss provision was up 46% from Rs. 28 crores to Rs. 41 crores. Provisioning coverage came in at 78%. Gross NPA was at 1.14% that is a movement of 4 basis points from quarter 1 last year to quarter 1 at this point in time. The entire net NPA movement is largely supported by the existing hard collaterals in respective businesses of two wheeler, construction equipment and a very small movement in the mortgage portfolio. But mortgage portfolio is non-material contribution to the net NPA piece.

Capital adequacy remained reasonably strong. The company also took a step in the direction of Usha Thorat draft recommendations and increase its standard asset provisioning from 25 basis points to 40 basis points. The company was already doing over 40 basis points in the mortgage portfolio thus this company had to essentially apply 25 to 40 basis points increment only on Rs. 12,000 crores of assets versus Rs. 19,229 crores of assets that the company ended quarter 1 on. As a result company took a provision of Rs. 18 crores in quarter 1 to as a one time measure to align its business to 40 basis points of standard asset provisioning. This leaves

a last element of Usha Thorat recommendations which the company is committed to implement irrespective of the fact that it remain in a draft form which is moving all its businesses to 90 days past due company is largely moved out of its 11 businesses 10 businesses already to 90 days past due provisioning it is only one business that is left which will have an impact of only Rs. 10 crores to Rs. 12 crores and we intend to take that some time in this fiscal in the balance three quarters.

So overall a very strong quarter adjusted for this standard asset provisioning of Rs. 18 crores the profit otherwise would have been up by 35% versus the 27% that we have reported as a company.

I will now run through commentary on our businesses and as to what has been are, what is our and provide some level of textures on the businesses. Clearly I will start with two wheeler business. The growth rates have slowed quite significantly given that structurally we are seeing slow down in the entire auto space and Bajaj Auto is no exception to that and since we are a captive lender to Bajaj Auto the two-wheeler business has also eased, the growth rates have slowed. In fact quite honestly there is no growth it is largely flat or marginally down on a Quarter-on-quarter, Year-on-year basis in Quarter 1.

Our market share held steady at around 30% which is where it has been for the last three to four quarters. The three-wheeler business however for Bajaj Auto continues to grow. Our penetration rates and I have articulated that in the last three to four quarters to investors that we are a very low component or proportion of the three-wheeler business of Bajaj Auto. Three years ago that number was used to be 2%. We went up to 5%, we were in to 9%. We were last were at 14% given that business is growing for Bajaj Auto we are and we are also grow in the three-wheeler business in the process. That business for us on a Year-on-year basis so a healthy 90% increase on a CAGR basis for Quarter 1. We are now operational in the three-wheeler business in 15 states and 97 hubs and 114 spoke locations. The consumer durable business is surprisingly responded very strongly in Quarter 1. The AC market we understand in value terms has grown anywhere between 20%, 22% to 24%. I think the manufacturers are the retailer communities also pleasantly surprised by it. As a result the consumer durable financing business did exceptionally well. It also did exceptionally well because of our digital product financing that we are gradually now expanding in to. We also added on a Year-on-year basis we have added 19 locations, 10 locations are reasonably older locations over 7 to 9 months old. Ten locations are less than two months old, so they will contribute in Quarter 2, 3 and 4.

So we are up from 81 locations to 101 on an Year-on-year basis but we are up only 10 locations from a full volume through put stand point we now have for our personal computer business tie-ups with for Apple we have a tie-up with, for iPhones we have a tie-up with Apple, we are working with Samsung, we have a tie-up now with Dell, Toshiba, Acer for 0%

PC Financing as well. The SME businesses, which is mortgage our business loans and loan against securities continue to grow in a healthy manner. We remain much focused on customer segmentation for us as a company. We continue to believe that we are amongst the top 3 to 4 loan originators in the business loans and the loan against property space.

New acquisitions having said that are slower than expected, we have not chasing growth. Some of the micro markets in the collateralized businesses like mortgage are seeing correction in prices and so and so forth. We are growing geographies in a gradual manner to compensate for those elements of slowdown. So in the business loan side is now operational in 59 cities which are 45 or 47 cities and actually 41 cities and 18 spokes. In the mortgages business we are in 41 cities. So overall very steady as you would be able to see from the credit performance of the SME businesses which we have shared in the investor desk they were largely held very steady or have actually in places like business loans we have actually seen improvement.

Commercial businesses, construction equipment, infrastructure continue to be de-grown in Quarter 1 as well. Auto components financing and these are not sectors that at this point in time for the last 18 months that we are focusing on. We have stayed with that view even in Quarter 1. The auto component business we would like to grow that business is performing very well for us but because of the structural slow down in the automobile business the good guys in that business do not want money. So where we want to give their working capital needs and CAPEX needs are less where we do not want to give they want money but we are not prepared to give in a commercial business.

So that is on the businesses. Interest cost for the company overall continued to remain lower than the NBFC peers is what our assessment is. We continue to remain reasonably focused on managing our ALM in line with our asset maturities. So we for the last 6 months when the monetary easing started or signaled was that interest rate will soften. We still did not take away call on shorting interest rates and given what has happened in the last 15 days followed by the NCD notification which were pulled back or what has happened since this Monday I think that has made sure that we continue to remain very liquid, we can continue to remain focused on growth and not come in to any pressure from a whether from the liquidity standpoint or interest rates" standpoint. We are watching the markets carefully. At point in time I think we are reasonably covered on our interest cost scenario for at least the second quarter. We are holding our interest rates where they are. If it is a permanent change in stance on interest rates by Reserve Bank and as a result which will get signaled by the banks from whom we borrow 55% of our monies we may have to go out and rates incrementally.

But at this point in time we are watching situation rather than acting. I have already talked about the gross and the net NPA. Gross NPA were Year-on-year up only 4 basis points. Net NPA moved from 15 basis points to 25 basis points contributed by very small change in

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mortgages, construction equipment and two-wheel business. Portfolio matrix across businesses as you can see other than CE and two-wheeler held very steady. Actually I would articulate that even CE held very steady because the business is every month dialing down the good guys are paying us down by 35% to 40% crores a month the business on an Year-on-year basis the denominator has collapsed by 40% between March 12 and now. So the good guys are paying down the bad guys are taking longer to actually be pushed out of the book and that is why the on an absolute basis the gross NPA number in the construction equipment business in Quarter 1 has actually dropped by Rs. 10 crores to Rs. 12 crores. So that is the point I want to articulate. Distribution of fee products which is life where we are a large distributor in January this year we have started health as well, general insurance which is health and we are focusing on health product is continuing grow in a very steady manner. We have just gotten approval from Reserve Bank to start doing mutual fund distribution in June we are now starting that as well. We have a tie with CRISIL for SME ratings we are quite surprised by the response from SMEs to buy those ratings and we are quite enthused by the response and it is a fee income driver for us.

Just on new developments broadly moving away from businesses and financial matrix Bajaj Finance got awarded as the top 3 financial services companies to work for in the financial services category by Great Places to Work. We are humbled by this award and our intent distributed to top in financial services rather than top three in financial services in the next two to three years time.

The company also launched in June 2013 its rural lending vertical. We have launched that with seven, it is a branch based model. We have launched with seven branches and 30 business correspondence. So it is a 37 distribution point launch that we have actually done. Based on the experience we have launched this in rural Maharashtra based on the experience we may do six more branches and 25 to 30 more business correspondence in Quarter 3/4 of the current Fiscal as you may already be aware Bajaj Finserv our holding company has applied for a banking license with an intent to convert Bajaj Finance in to bank subject to license from Reserve Bank of India. That is the management commentary.

The last piece in our investor presentation from this Quarter onwards given that we as a company have continued to talk about cross sell as a strategy. Our whole diversification play was built on cross sell as a strategy. We thought it was an appropriate time we track those matrix internally we thought it is time for us to start providing texture of that to investing community as well. So we have added in our investor presentation from this Quarter onwards a product per customer section in our investor presentation. Say if anybody has any questions I would be prepared to answer questions on that. We have broken that up in to retail and SME products per customer. We are short on our point of arrival in both retail products per customer and SME products per customer but clearly as you would be able to see from the matrix that we have actually shared there that the trend line is an improvement anyway it is a

point of arrival for us as a company and as we add more products and as we refine our credit engines to be able to do more with our customers we should be able to meet the point of arrival matrix that we have actually put there. That brings me to the end of the short commentary on as company. Overall I would say reasonably strong quarter for us as a company. Now I am open to questions.

Moderator Thank you very much, sir. Participants we will now begin with the Question & Answer Session. We have the first question from the line of Amit Ganatra from Religare Invesco Asset Management. Please go ahead.

Amit Ganatra My questions basically two questions, one is that can you explain these two slides slide 12 and slide 13 in more detail basically further to understand you offer basically 11 products in retail and your benchmark is basically to be able to sell at least 3 of them to any single customer, right?

Rajeev Jain That is correct.

Amit Ganatra And right now on a 24 months basis business you are basically doing 12.12?

Rajeev Jain 2.12.

Amit Ganatra Yeah, sorry 2.12%. So ideally basically you would like to move towards 3 but right now basically you are doing 2.12 kind of that is the outcome?

Rajeev Jain That is correct.

Amit Ganatra Now the next stage what is this so disbursed value?

Rajeev Jain Right hand side is what you asked on the left hand slide you are also showing that how much business in came from what was the mix of existing customers and new customers in disbursements. So if you disburse Rs. 1542 crores worth of loans in the retail business 48% of the business came from repeat customers who are already are existing customers, who are all good customer and who came back to us to purchase another product in the consumer space and below is the SME space 28% of our customer may have had another loan from us and they came back to purchase another product.

Amit Ganatra so these Rs. 1500 crores basically means the total retail disbursements that you have done for fourth quarter so if I read this slide correctly it includes all the retail disbursements, right Rs. 1542 crores?

Rajeev Jain The only thing that we include is the two-wheeler disbursements okay because as we have consistently articulated we deal with a customer who is mass or below mass there largely

below mass there and we do not foresee at least from our business model stand point an opportunity to do more with him. So it does not include our two-wheeler disbursements for the quarter gone by.

Amit Ganatra This is Q4 SME Rs. 1700 crores is the total disbursement?

Rajeev Jain Yes, that is correct.

Amit Ganatra And just one more reconfirmation. So now except for one line of business all other lines of business the NPL recognition and is basically 90 days?

Rajeev Jain That is correct.

Amit Ganatra When was this change made, which quarter?

Rajeev Jain We will be making that change on an ongoing basis over the last 18 months or so.

Amit Ganatra And now what two-wheeler is the only business line which is pending?

Rajeev Jain That is correct.

Amit Ganatra And how much would be within two-wheelers and three-wheelers what would be the mix is like on an outstanding basis?

Rajeev Jain 12% to 14% of the value that is what it will be.

Amit Ganatra 12% to 14% of the total two-wheelers plus three-wheelers, right?

Rajeev Jain That is correct. We will actually start breaking that as well from second quarter.

Amit Ganatra But on a disbursement basis the mix would be significantly in favour of three wheelers?

Rajeev Jain At this point in time, yes because that is growing. And the ticket size is larger. The mix is changing. It would not be so to answer your question on a portfolio mix basis yes the answer would be 12% to 14% on an incremental acquisition basis yes it will be 17% to 18% of the disbursement mix.

Amit Ganatra 15% to 18% on an incremental basis, okay. And typically how much is the yield differential that one gets on two and three wheeler overall?

- Rajeev Jain** It is a comparative intensity play. Having said that I would say to you the three wheeler yields are higher because “the risk is higher” distributed over fewer customer product so the risk is higher (**Inaudible 22:20**) at this point of time and as we learn more we will readjust the play.
- Amit Ganatra** Just from an understanding perspective so you have mentioned that earlier you were not having share in this business I mean you have mentioned three to four years ago you did not have any share in this business.
- Rajeev Jain** That is correct.
- Amit Ganatra** And over a period of time the share has grown, so when basically who are the other players basically with whom you compete in this business and is the model in that sense like a dealership model?
- Rajeev Jain** IndusInd is one of the large institutional players that we compete with. Shriram is another player that we compete with.
- Amit Ganatra** And this model is also similar to a two wheeler it is like a dealership?
- Rajeev Jain** Yes, completely.
- Amit Ganatra** So this in the asset quality slide that you have presented after a long time basically there has been some sort of deterioration in this two-wheeler and three wheeler portfolio.
- Rajeev Jain** That is correct.
- Amit Ganatra** This has happened in two-wheeler or it has happened more in three wheelers?
- Rajeev Jain** Two wheeler.
- Amit Ganatra** Okay it has happened in two-wheeler but I mean on an ongoing basis I mean are you seeing any further sign of stress in asset quality in any of the business segments?
- Rajeev Jain** So we have shared data as it is so I mean so if I look at it consumer electronics portfolio has improved two-wheeler had deteriorated and we are watching it very carefully. A personal loan has improved or it steady at 95.5. Salaried personal loan is steady. Loan against property there is 10 basis points deterioration. Home loan is 10 basis points deterioration. Small business loans actually improved. Construction equipment as I articulated earlier because the denominator of the good customers is dropping. The block in construction equipment in that sense is not relevant. On an absolute basis so let me give you a texture. In quarter one Rs. 120 crores of our portfolios a good customer has walked away. In quarter 1 in construction equipment whereas we have not seen a correspond it takes time to exit given that it is a

collateralized business to exit from the client even if you do requisition action we sell the asset it is a longer time horizon than good customer walking away who is walking away every month. So, on an absolute basis you are down in the current buckets in quarter 1 in construction equipments. So overall I would say that is where it is from an overall portfolio standpoint. We are watching only line I would say is that we are watching the two wheeler business more carefully we are not concerned about any other business at this point in time. We are pretty I would use the word we are comfortable and confident of the credit quality holding in at least for the next two quarters. We do not know how the external environment continues to behave and what ramifications it has eventually on portfolios.

Amit Ganatra Any implication on growth guidance?

Rajeev Jain So we said in the beginning of the year a 20% to 25% growth. On an absolute basis we have done 35% growth adjusted for this standard asset provisioning that we have done but I would say given the highly volatile external market environment we would hold our guidance at 20% to 25% growth on a full year basis.

Amit Ganatra And last just a small clarification. Can you just define these buckets?

Rajeev Jain Buckets is 30, 60, 90, 120, 150, 180 that is all.

Amit Ganatra So last bucket is basically 180?

Rajeev Jain That is that because we are largely moved all to 90 days passed due you will just read them as it was . So it is one bucket is one month due that is all, one installment due.

Amit Ganatra So for you basically now in most of the business is third bucket, post third bucket you are anyways recognizing it as an NPA?

Rajeev Jain That is correct. Providing, not recognizing as NPA we are providing. So consumer durable we are providing 75% we are providing in bucket 3. At 90 days passed due we provides 75%.

Amit Ganatra So it start hitting your P&L but it might not get reflected in the reported gross NPAs, is it correct?

Rajeev Jain Yes, that is correct.

Moderator Thank you. We have the next question from the line of Subramaniam PS from Sundaram Mutual Fund. Please go ahead.

Subramaniam PS Just following on from the earlier question when you said you are following a 90 day provisioning but on a recognition basis it is still on a 180 day basis. So this excess

provisioning is it netted off from the reported gross NPA number or is that maintain separately?

Management

No, that is treated separately.

Subramaniam PS

So that is not netted off say gross NPA to arrive at the net NPA?

Management

No.

Subramaniam PS

Second question sir. Of your total loans how much of them would actually qualify for priority sector?

Rajeev Jain

If I take the entire book probably 7% to 8%.

Subramaniam PS

And this would largely be the 3%?

Rajeev Jain

We have done work on that so between 7%, 8% and 9%,

Subramaniam PS

Okay between 9% would be there, sure. And sir, you are alluding two new revenue streams in terms of non interest income the first one was with CRISIL for SME ratings which was the other one?

Rajeev Jain

It is Health Insurance.

Subramaniam PS

And can you just let us know what are the dynamics of this SME rating business and how it actually works?

Rajeev Jain

Fundamentally we have worked in a strategic partnership with CRISIL over the last one-and-half years. We see it has a large financial counseling tool. We see that Basel III would require these SMEs to be rated. So that was our orientation as a company. So we worked and clearly we did not want we were doing financial counseling using our own model which may not have been independent and vary accretive to the SMEs. So we have worked with CRISIL and we have created a framework and a model whereby it delivers much between customer experiences, it delivers lower cost to the customer, it delivers revenue to us and it creates a B2B model of origination for CRISIL. CRISIL today is doing 13,000 to 14,000 SME rating the year. We this year in the first year of business while we started from December would do around 1500 ratings for them. So in a first year of starting business we would help them do in a B2B model without creating sales and distribution engine, a 10% of incremental ratings for the year. Now what that helps is now as a result of the game that they get of doing in a B2B model they have cost sales. They pass those cost sales to us. So that is our revenue model it is beneficial to customer and it is beneficial to CRISIL. So it is a win-win provided we create an eco system which helps doing that. We are working on a very similar frame work for our

individual customers. At this point of time we hope to launch something on very similar lines in two to three quarters. Now we see it as a great financial counseling tool and we see it as a revenue model and actually these are the two points.

Subramaniam PS One last question on the bank license you said that Bajaj Finance would be converted in to a bank if you get an approval so are we assume that there will no restructuring in terms of shareholding pattern so it is just that Bajaj?

Rajeev Jain No.

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

Ashish Sharma Just going back to the guidance number you have mentioned about 20% to 25% can you just I mean in the light of events in the last two to three days do you see any risk to that I mean the lower end of the number the 20% just some color on that?

Rajeev Jain No. I mean see look quarter 1 is normally a headline view to the year because if we have momentum on our side across lines of businesses it delivers the year gets done better. That is the way lending businesses are structured. NAR in quarter 1 delivers much more than NAR in Quarter 3 and 4 at a pretty conceptual level. We have had a reasonably decent start to a year. If it was not for the events of Reserve Bank which were the first was the NCD issue 14 days ago and the second is what has happened on Monday we would had a higher degree of conviction on the other side of 25% than on 20% to 25%. But we are I think the markets are in a state of panic we are watching the situation very carefully so we would stay with that number.

Ashish Sharma But I mean in case we have to sort of just look at the segments where you see more comfort in I mean I think see the little sanguine on two-wheelers and consumer durables but I mean your sense on those two verticals?

Rajeev Jain Clearly we are very cautious on the two-wheeler and anyway the demand outlook itself is weak so we might does not consolidate our act, that is point one. Point two, consumer durable because of our added geographies, added products in the digital space lifestyle financing is given our low basis it is still doing well because of a low base. We think we will be able to deliver reasonable degree of growth in the consumer durables/lifestyle financing business. So that is what our outlook would be at this point in time. As you will be able to see Ashish the consumer and the SME both have grown 40% each. Commercial is de-grown 9%. I think you will see that continue at least for Quarter 2 if the rates do harden if it is a permanent change in stand by Reserve Bank on interest rates. You can safely assume that the SMEs business will slow. In fact then we are facing it at a much larger problem because we will see stagnation in

inflation. So that is the question more pertinent for you guys to answer. So we are watching the situation with a reasonable degree of caution.

- Ashish Sharma** And coming back to the NIM's outlook also and I mean can you just tell us what will be the cost of borrowing for Q1 and where do you see that sort of?
- Rajeev Jain** No, cost of our ends if you were to look at it sequentially adjusted for the equities are came in is down 7 to 8 basis points.
- Ashish Sharma** And what will be the material impact I mean the short term rates have shot up?
- Rajeev Jain** unknown Ashish, so I think we can as I said we have not shorted ALCO or ALM process so we are comfortable for Quarter 2. I think Quarter 3 and 4 given what has happened in the last one week it is a little premature to comment.
- Ashish Sharma** And you mentioned about this whole product per customer matrix where you have sort of a given quite a detailed breakup in the presentation this 2.12 numbers I am just taking the longer tenure 24 month basis thing when do you see this sort of are moving to the benchmark which is the three products per customer sort of a metric?
- Rajeev Jain** See there are elements to hike once the credit card business comes in. It would improve that. See we will have bring in new products on one side like credit card can be a big driver of the PPC metric on the retail side of the business. Our EMI cards in force have already crossed 1 million so to that extent it will not be a full 1:1 impact because less customers will take EMI cards and more customers will get credit cards in the process. But new products and continued refinement of our Health Insurance which we are doing through a tele-binding process is another driver. Doing life insurance to these customers through a tele-binding process on which IRDA has more comfortable because it does not require physical it reduces the chances of miss sell. IRDA is very comfortable those pieces can drive these metric cup a and we are working on refinement, creating new channels and creating new products to get to three in a foreseeable I would say 18 to 24 months time.
- Ashish Sharma** Just last question on the two-wheeler thing I just wanted to confirm. Do we have any internally threshold as to that is the percentage of vehicles of which we sort of a do not want to cross because we just want to do only Bajaj?
- Rajeev Jain** Yeah, so we are in between 27% and 30% I have consistently said that and that is why we will stay.
- Ashish Sharma** So we will not sort of increase our penetration sort of to?

Rajeev Jain As I said we are not pushing for more. In the business we would rather grow pieces that are growing externally then to try and grow pieces that are not growing.

Moderator Thank you. We have the next question from the line of Hiren Dasani from Goldman Sachs Asset Management. Please go ahead.

Hiren Dasani I am infused by your confidence of maintaining the 20% to 25% growth. Just couple of data points, first what is the outstanding borrowings?

Rajeev Jain Outstanding borrowing is close to Rs. 14,211 crores.

Hiren Dasani And what is the outstanding AUM for the let us say auto finance business?

Rajeev Jain It is 15% to 16% of the book. So Rs. 19,200 crores.

Hiren Dasani The other thing is just to understand this 90 versus 180 DPD what you are saying is that the reported gross and net NPLs are on 180 DPD basis, right?

Rajeev Jain That is correct.

Hiren Dasani But there is some excess provision sitting on the balance sheet which can be used as and when we move to the 90 DPD basis?

Rajeev Jain That is correct. Even the balance sheet the way report assets under financing schedule we say that provision that we have created on non-NPA asset. So that is basically determines the provision that I am carrying on 3 to 5 buckets?

Hiren Dasani Now if you were to report this gross and net NPA today on 90 DPD how would that number look like compared to 1.14 and 0.25?

Rajeev Jain There may be addition of 30 to 40 basis points. I mean I am just shooting from the hip. We can do that maths separately with you and share with you. Because as far as we are concerned you have fully provided for those assets even the unsecured piece gets only provided for at 150. So it is virtually as far as we are concerned fully provided for.

Hiren Dasani The net NPA then it should not really have?

Rajeev Jain So the net NPA we have only provided assets will be zero and I go back it in to that is why I said net NPA is contributed only by mortgages in a small manner two wheeler and construction equipments. So they are all bagged by hard assets and if our LTV's are right eventually we will not have a impact on the P&L.

- Hiren Dasani** I understand that. I am just saying that just from the understanding point of view if you were to report this from 180 to 90 may be gross NPLs will go up from let us say 114 basis points to whatever 30, 40 basis points higher number which you are saying the provisioning whatever you are showing the excess provisioning on the balance sheet that would now be netted off against the gross NPLs?
- Rajeev Jain** I think the gross NPL number will go by close to 30 to 40 basis points. The provisioning coverage will have continues to remain at around 78%. So one can do a back calculation on the net NPA number.
- Hiren Dasani** Now you said that there are two issues which is kind of confusing the market obviously the recent RBI move of squeezing the liquidity is one and the other is the NCD issue. NCD issue I thought RBI already clarified that thing of putting six months window between two issuances on hold so is that?
- Rajeev Jain** So see they have pulled back their notification as you are aware. That is point one. Two, what it has done to the sentiment on the wholesale NCD market is that no new issuance is virtually happened people are still waiting that. So there are two elements there were retail debentures, secured debentures in the wholesale space and unsecured debentures. We as a company have very small position on unsecured debenture we do not do retail that is point one debenture. So it never troubled us or bothered us. We think RBI's action was right we support that action that a non-deposit taking company was conceptually using a retail debenture route to go out and do deposit so we agree fully with the concern of the Reserve Bank in exposing public depositor to a instrument that has not meant for them. So that is point one. Having said that as they wrote out that notification they covered even they landed up covering even the wholesale piece and landed up covering the unsecured debenture piece. Now the wholesale market got very nervous so the notification came notification got pulled back and unsecured they have kept their position though that you are not allowed to do. We have Rs. 380 crores out of Rs. 14,000 crores of total borrowing which is an unsecured debenture on which they said you are not allowed to do. So it is a small position as that is gets squared out we will square it out and replace it with a secured debenture. On secured debenture because of the nervousness in the market and RBI is –
- Management** And then post this other issue a cheque come or when they try to hold the dollar rupee value that is a Monday that has even.
- Rajeev Jain** No, just say the NCD bundle.
- Management** Yeah, so on the NCD side basically other than the six months" gap we had no issues whatsoever with the entire circular because like as Rajeev said we were only in the wholesale space not in the retail space we never got bothered by the cap on the number of institution of

the investors of 49 but thereafter we have seen a slowness in the market for the NCD route because there are some operational challenges that you have to pay create the security before you can touch the money and things like that. So there are some various things that are going around it and not much issuance have taken place so far.

Hiren Dasani

No, obviously the two things are happening parallelly one is the liquidity squeeze move and there by the market freezing up for the debentures etc and the other thing is that lack of clarity on the issuance window between the two issuances. So I am saying that let us say if the liquidity is squeeze move had not happened then with the RBI removing the notification the market would have been clear that the six months window is no longer applicable for the institutional placements for the wholesale placement and then in that case I do not think additional clarifications are required from the RBI for the institutional placements. So it is more of a freezing up of the market which is kind of impacting like this today.

Rajeev Jain

That is correct. So as market slowly comes back as noises come from Reserve Bank and saying that this is now the way forward then you should start to see..... But having said that I mean I was just seeing that gold loan companies are now starting to do public offer of NCDs. Now I do not think we are helping the cause of Reserve Bank. I mean they have stated their position in a reasonable manner and this is today's news right I mean they would not like public money to be accessed through a retail and debenture but it continues to happen so it is a troubling thought for the sector is all I would say. We are continuing to go against to what Reserve Bank would like you to do. So that is fine.

Hiren Dasani

And just on the priority sector I think you have mentioned earlier that 8% to 9% of the book is today compliant on PSL, do you have any sense let us say assuming you get a bank by the time let us say you are allowed to open I mean convert or so what percentage of your EM will become let us say PSL compliant based on your growth?

Rajeev Jain

As we on the banking license you guys know as much as we know as we start to hear more and I think there is fit and proper criteria after that there is the HACC interviews that we will be called for. As we start to cross through every hurdle we will start to share greater clarity. We have a plan. We have a thought process base on that our promoter shareholders have agreed to file for an application we will start to share that more clearly.

Hiren Dasani

What I meant was that let us say the PSL origination you have already started as an NBFC also and even if let us say you do not get the bank for some reasons even then the PSL origination capabilities are useful, right because you can always down sell those PSLs to?

Rajeev Jain

Of course so I mean the entire rural earning business we see it as a very large business opportunity from a 3 to 5 years' standpoint. We are investing in it one from a next level of growth as a strategy and it will help us learn in the process even from the banking standpoint

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but if the bank does not happen we would have created a new segment in the company and we would have created a PSL origination capabilities in the company. So we are quite clear as eventually irrespective of whichever license we sit with it is accretive to the company.

Hiren Dasani

And lastly on the two wheeler NPAs I mean there is no way that we will go back to the historical issues which the company faced?

Rajeev Jain

No way that I can say very clearly to you. I only want to qualify one fact that I have said this many times in the past as well that we continued to be having super normal profitability because of strong growth in consumer business and super low NPAs. They will never go back and I have said consistently the net NPA number on a structural basis in the long run and I am not giving a guidance for it to be there for the current year but structurally is a 40 to 50 basis points net NPA number.

Hiren Dasani

For the company as a whole?

Rajeev Jain

For the company as a whole. So I want to continue to emphasize that the business construct is for that. We have been at 10, we have been at 15, we have been at 19 and we have been at 25 structurally in a gradual manner you will go there. A poorer economy we will get as faster there but we will never go to whatever 5% net NPA 6 years ago. The provisioning standards will ensure that the business get stopped in its track in not more than two quarters" time. Because the **rating 49.00** starts to flow in the P&L. P&L is the first stop which follows in to the balance sheet in that sense and that is why we have been moving to strengthening provisioning standard as a company. We want the business manager to know there is a problem with your business. So that is where we are and that is our purpose of dumping Usha Thorat in a draft form. So we are not going there Hiren let me emphasize. Even in the two- wheeler business in the presentation you will see that in September „11 it was 6.2. We quite honestly never anticipated a 90% current number. I want to state that as well. Then they are fully collateralized 25 months end-to-end tenure on an average book of 14 months that in 90% of the portfolio can remain current because if you see the 30 days and the 60 days essentially contribute to a very large component of the business. So those are the buckets which have deteriorated in quarter 1 and we are working overtime to pull them back either through collections or through repossessions as a company.

Moderator

Thank you. We have the next question from the line of Shrey Loonker from Reliance Mutual Fund. Please go ahead.

Shrey Loonker

Just two questions, one was just taking back from Hiren"s question on two-wheeler clearly we cannot go back to the earlier numbers but if there is any introspection that we have done with the behavior that we have seen although 90% itself was a very optimistic number but it is still

a drop from the trend line that we have seen over the past few quarters. Any introspection of is it a pervasive behaviour issue or is it a few geographies depicting this behavior?

Rajeev Jain

It is the two geographies are related that is point one very, very clearly and I said we are watching it very, very closely so that is where we are. Structurally let me just say that we are very clear while the product profitability metric allow for even an 86% number to be a good number as long it is sitting in buckets 1 and 2. We are not happy with that and we are acting pretty aggressively to fix it is what I would say.

Shrey Loonker

Second was the PC financing that we have spoken about I just wanted to understand how different will it be from the last time that we did just to understand in terms of improvement in terms of systems and filters that we are putting in now so that it does not kind of take course of the history that it has?

Rajeev Jain

That is a very valid point. Two things, it was not at 0%. 1) It is all at 0%. You can buy Acer the advertising which is happening Rs. 2400 EMI all at 0%. Anything which is interest charged for a low ticket price product that is our experience creates adverse behaviour. So that is point one. 2) We are not creating other than very large multicity format distribution any new distribution. So I will give you an example. We are also doing 0% for mobile phones only through somebody like Univercell which is the largest retailer in South India. He has 300 stores in South India. We are only working with him, that is it. Because it is an institution, he runs 300 stores in South India. He is a clear that is a tool for him to be able to up sell more premium products to his customers. So distribution and proposition deliver consumer behaviour and that is our key learning and we are staying with that principle simple. If Toshiba gives us 0% we will do Toshiba at 0%. If does not give us we will not do. So today we have tied with Acer, we have tied with Toshiba, we have tied up with Dell. All three 0% only you can walk in to the store and get last thing. The personal computer business in the last 5 years has become at a fundamental level a brown goods product. The distribution overlap versus five years ago to now is very large. They are looking at it as walk-in pay bundle take. It is the distribution overlap is very large and we understand that distribution much better. These were our two core problems last time. If they are not addressed, we are not doing, that is it.

Shrey Loonker

Fair but while doing this do we have any subvention LED filters to insulate so even with Univercell as you mentioned?

Rajeev Jain

We are doing mobile exactly Shrey. We are not doing a product less than Rs. 20,000. The segmentation is not compromised. We are not doing Nokia's of Rs. 8,000 or Rs. 5,000. Smartphone Rs. 20,000 is a value that is why we went out and tied up with Apple for 4 and 5. Average ticket size is Rs. 40,000. So not comprising on segmentation in any given way.

- Shrey Loonker** Just if you can give me some more texture on the lifestyle financing piece? What is the size, how it doing, broadly the ticket sizes any further texture there that will be helpful?
- Rajeev Jain** So ticket size is holding at Rs. 40,000 to Rs. 45,000, 27 city presence. We are now using some level of overlap from 27 to 50 cities by leveraging our consumer durable network. We have over the last 18 months now created 1100 point of sale presence in the business. I think that is one of our biggest wins. 70% of the customers are existing customers of CD. They bought a TV, paid for it went and bought a sofa. Furniture all retailers Home Centre, Home Town, Durian, Damro, @Home so furniture ecosystem is now fully mapped and people present in. We had said 90,000 to 100,000 accounts for full year in the business we are very geared to deliver that in the current year. I had said the business will be Rs. 450 crores to Rs. 500 crores business very well here to deliver that for the current year. [Ticket sizes] as I said holding between 40 and 45 so it is lower than our expectation especially last year, even now Quarter 1 is still slower than our expectation because furniture business has degrown 30%to 40% on an year-on-year basis in organized retail. Organized retail is only matrix that is available. So there is distinct slowness in furniture off take and that is why we are behind our expectations but we will still deliver 90,000 to 100,000 accounts in a ticket size of 40,000 to 45,000. Just 70% are existing customers.
- Shrey Loonker** Just to understand one very basic point so this 70% customers being existing CD customers so this is just as a matter of coincidence or?
- Rajeev Jain** No, it is a matter of drive. So we have created in the company I go to PPC metric. If we eventually wants 15% of the customers walking in to the retailers and are coming from the retailer. Okay, so we have created a function in the company called collectivization which is now driving stimulation to our existing base to walk in to retailer. Look the fact is things are slow for the retailer. We are a B2B company we need to assist stimulate customers to walk in to retailers to help them keep their above water. So through using digital channels we are stimulating retailers give us offers we send those offers in a scientific manner to our customers who have paid us well and they walk in to the store and purchase products. So 15% is CD business is the point of arrival and in the life style business where retailer in the organized retailing are struggling from foot falls and have large fixed OPEX we are working with them to drive this.
- Moderator** Thank you. We have the next question from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.
- Anand Laddha** Just few questions just wanted to understand we have seen very strong growth in consumer financing business in Q1, so could you just explain what has been the driving force in the consumer durable business is it just the AC sales and also if you can say how has the customer

sentiment or behavior at this time, do you expect this festive season to be slower than last year or if you can read anything?

Rajeev Jain

Answer is we cannot reach anything. Pretty honestly I think we are surprised by that kick up in value terms in the SE space. Volume and value, less by volume more by value. We have never seen this kind of ticket size because consumers are not just buying I am told window will be discontinued, number one. So, that is a trend for the last two to three years now but that has caught much more momentum now. That is point one. Point two, people are not just buying split they are buying inverter splits which are 15% to 20% higher value than normal splits. Now that lift off in value we are reasonably surprised by is all I would say. Normally to answer your question historically a good Q1 for consumer durable manufacturer provides revenue pools for them to invest in Q3. We hope and that has been our experience for the last six years. We hope that experience stays. If that experience stays and they are aggressive in Q3 we as a company could be a beneficiary of that as well. At this point of time we are watching it closely.

Anand Laddha

Like in mobile if you seen at some point of time there has been rush from credit car companies to offer different scheme of financing, have you seen any of the market rush from banking side to offer the 0% financing on consumer durables?

Rajeev Jain

No, not at this point of time is what my consumer business head is saying.

Anand Laddha

Lastly on the three-wheeler financing business I just want understand what proportion of three-wheeler sales would be happening through finance?

Rajeev Jain

It is a much larger unorganized market, so the unorganized component of the market is larger than the organized component. So it is very difficult to put a finger on that how much financing will be happen. However, through organized would be around 55% to 60% is organized, 50%, 55% to 60% if moving in that space.

Anand Laddha

If I can ask you what could be the interesting differential between an organized player and an unorganized player?

Rajeev Jain

It will be chalk and cheese. It is there they are not so the model itself is it is like this. They are on a daily rotation so they are comparables is all I would say to you. It is a daily collection model and so on and so forth, non-installment driven, pay when you like and all those flexibilities have a price attached to it and so on and so forth. So it is not even comparable.

Anand Laddha

And do we also do cash selection in this business means large chunk of cash collection base or it is?

- Rajeev Jain** In the markets where we have built cash selection capability we do in markets we have not built we do not do as yet.
- Anand Laddha** And lastly on the consumer durable side again just want to see what could be the contribution of top 5 in the total disbursement or total business you are doing here?
- Rajeev Jain** Between 8% to 10%.
- Moderator** Thank you. We have the next question from the line of Nilanjan Karfa from Jefferies. Please go ahead.
- Nilanjan Karfa** One quick question on this two-wheelers thing I am not sure I heard if you talked about it last quarter also but have you analyzed in why this two-wheeler is starting to look a little shaky at this point and specifically which you have affairs it it like rural, urban, or any color on the vintages of this?
- Rajeev Jain** It is largely rural, Nilanjan and the reason I say rural because it is coming from our direct cash collection business. So clearly it is coming from there and we do not offer that in urban markets, we offer that only in rural markets and that is where we have seen larger deterioration.
- Nilanjan Karfa** Any reason because people generally talk about the rural is holding up the wages, the wage rate is a lot higher in rural capital has been good?
- Rajeev Jain** Nilanjan, I would just say I think it is only one quarter in we should. We are watching it and whether it is a seasonal effect or is it a structural play we will know in the next definitely in two quarters but greater clarity will emerge in second quarter. Monsoon should help but let us see. Next quarter say more monsoon as cost less income than more monsoon as cost more income.
- Nilanjan Karfa** I get it. But any color on the vintage is it like the recent ones?
- Rajeev Jain** If at all there is a silver lining in that is that that they are older vintages and that older vintage is helped that we are covered on our LTV between 78% to 80% is our historical LTV and we have not compromised in that for the last four years. If it is beyond 8 to 9 months vintage and we can side the asset then our eventual flow through of loss will be disproportionately lower. Our net impact may be lower we may see delinquency movements. So that is a silver lining in the story on that but we are not happy with 87%. We would like it back between 88% and 89%.

- Nilanjan Karfa** And second on this NCD thing that you just talked about I could not understand this part you talked about that RBI has stopped unsecured debentures but was it mentioned directly in the announcement or was it a separate?
- Rajeev Jain** That we have mentioned in announcement very clearly.
- Pankaj Thadani** Yeah, it is we have met the RBI and we have in fact made the representation to permit unsecured NCDs which as of today it has seen it is not permitted.
- Nilanjan Karfa** And secondly I think after they pulled back that original notification that mentioned that there has to be a board approved policy of how many times you want to do a secured?
- Pankaj Thadani** That has done.
- Rajeev Jain** We were already following most of the pieces we have put that together and we used to share with out board from a governance standpoint very clearly the borrowings that have done specifically by borrowers and we are already 85% to 90% of the things you just put that together in a policy form and it had been approved yesterday by the board.
- Nilanjan Karfa** Would you be able to share it out in terms?
- Rajeev Jain** No, fortunately it is not required to.
- Moderator** Thank you. We have the next question from the line of Manish Shukla from Deutsche Bank. Please go ahead.
- Manish Shukla** This again going back to your application for bank license you did say that you have certain plans in place I just wanted to check with you if you have – I am sure you would have done it but if you are willing to share the kind of profitability impact which the CRR, SLR, PSL and rural requirement would have given that today you are at a 4% kind of an ROA in the eventuality that you have to become a banker here down the line what is the impact and how long would it take for you to normalize your ROAs?
- Rajeev Jain** So Manish as I said earlier as we start to hear and get some level of clarity on the next steps if you do not qualify as fit and proper why should we articulate a strategy at some point in time as we qualify through hurdles in the license process we will start to share greater degree of detail at every hurdle. So it is a steeple chase. We have shared you obliged when we get information on fit and proper we share greater information to the street. We under the apprehension and eagerness to know how we will be go about to do this. I can only tell you we have thought through this with a degree of detail. It was a very strategic call for the shareholders and for us as management and we have taken a collective view that we want to apply. Very clearly we had to convince shareholders that it is a right thing to do from a long

term standpoint so we will share but you will have to excuse us this point and it is too premature to discuss levels of details on banking. I can assure we will share we are an open company and we share reasonably greater degree of detail with the investors than most companies do. We will share very clearly articulated plans with the street as we go through hurdles.

Moderator

Thank you. We have the next question from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan

The first question I had was on your expenses. If you see your expenses seemed to have actually moved sequentially quite higher both on employee as well as the other expenses. So can you just give us some color on what is happening to the expenses and from a perspective of what is your guidance would you hold cost-to-income ratio for the full year?

Rajeev Jain

So it is a good question Shyam. I was wondering my NPAs have not risen that much that I should answer so many questions. For 4 basis points it explains the nervousness so let us talk a number which are little less sexy. So it is a valid question. I am just trying to see sequentially where our OPEX was. The OPEX the ratio was Q4 was 45% of NII. In Q1 also it is held at 45%. It is actually on a Q-o-Q basis it is dropped you are right sequentially versus the income it is held steady. So no operating leverage sequentially has emerged. As a strategy the company continues to invest in more channels, more products/verticals and incapability creating pieces of the horizontal elements. We have not slowed that down. We also intend to in the current year do an above-the-line campaign as a company for which we have also set aside some numbers in the current quarter. They are intended to be spent sometime in Quarter 3 and we did not want to take a large number in a quarter so we are spreading those numbers. So one, the growth theme remains you are not slowed down our investment pipeline of initiatives so that is part one. Part two we do intend to Quarter 4 to Quarter 1 there is a wage increase normally that happens so that is Part 2. Part 3, clearly there is intent to spend on market initiatives in Quarter 3 for which we kept a provision. I think these are the three broad themes is what I would say to you which have caused sequential holding of OPEX as a percentage of the net interest income.

Shyam Srinivasan

Can you just share us the outstanding employee number?

Rajeev Jain

Outstanding employee number is 3,200 if I am not mistaken. No, that is 3,086. In Q1 we would have added 150 plus. Between 3,200 and between and normally Shyam what happens is we do most of our employee additions in a reasonable manner in Quarter 1 and in Quarter 4. We take Quarter 1, we stabilize Quarter 2, we take between Quarter 3 and 4 depending on how we are doing is. So it is one quarter off and quarter on is how we normally do employee hiring as a strategy.

- Shyam Srinivasan** My last question in light of the change in the two-wheeler asset quality issue, are you revising your guidance on the credit cost, loan losses to...
- Rajeev Jain** No, not at this point in time.
- Moderator** Thank you. We will take the next question from the line of Mr. Umang Shah from CIMB. Please go ahead.
- Umang Shah** Rajeev, just wanted to check up on one thing. Could you let me know what is our provisioning policy across categories like consumer SME and commercials?
- Rajeev Jain** Sandeep can share with you. I have articulated that but by line of verticals that we have actually outlined in the investor presentation Sandeep Jain who works as investor relations person can share it with you.
- Umang Shah** Perfect, not a problem. Just wanted to confirm one more thing. In your opening remarks you have mentioned one particular number the impact of converting two wheelers to 90 day that was Rs. 112 crores?
- Rajeev Jain** No, Rs. 11 crores to Rs. 12 crores fortunately. That is the last element of it which we will clean between within Rs. 10 crores to Rs. 12 crores is what the number was.
- Umang Shah** Just one more question. In terms of obviously you mentioned that the situation remains fairly fluid at least at this point in time in terms of guiding for any kind of rate increases or borrowing cost but hypothetically if the situation currently remains the way it is and rates remain elevated what kind of pricing power do we have in our SME businesses because consumer my assumption is probably you can pass it on?
- Rajeev Jain** Yes, that is the correct assessment. They are and when the rates were low we never changed pricing and rates are high we never changed pricing.
- Umang Shah** But how does the mortgages and the --?
- Rajeev Jain** Too much are insensitive to pricing. FMEs clearly much more sensitive to pricing. We will have two issues there. We will have an issue on margins and we will have an issue on volume. I think and that is the last leg and I am not talking us I am talking industries that Commercial is degrowing or slow. SME does not have the confidence nor the stimulation of low price to purchase. It is a troubling thought is what I would say to you.
- Umang Shah** Just one more thing, in our loan against portfolio category the nature of customers would be predominantly from I mean what would be the proportion of repeat customers or existing customers?

Rajeev Jain As we have said right so 28% of the sales in SME business in Quarter 1 disbursements came from existing customers.

Umang Shah And same thing would apply to LAP as well, more or less?

Rajeev Jain Yeah, this includes LAP, business loans and LAS.

Umang Shah And what proportion of customers would be from properly a group perse?

Rajeev Jain Group means?

Umang Shah I mean Bajaj Group per se do we track that kind of a number or?

Rajeev Jain No. I would say it is zero in a way. Neither do we lend to Bajaj Allianz customers nor do we track that, nor do we even do duplication because IRDA has specific guidelines outlined in terms of not shareing of data.

Umang Shah And just want to confirm last two data points. Our average LTV on two-wheeler portfolio would be how much?

Rajeev Jain 78% to 80%.

Umang Shah And our cost of borrowing would be how much roughly?

Rajeev Jain I can only tell you sequentially it is down 7 to 8 basis points in Quarter 1.

Umang Shah Would it be fair to assume it is in the range of 9.25 to 9.50?

Rajeev Jain Yes. You are close.

Umang Shah I just need one more data point probably I will take it from Sandeep offline.

Moderator Thank you. We will take the next question from the line of Adarsh P from PL India. Please go ahead.

Adarsh P Just one more question regarding the NCD issue. In your conversations with the regulators do you think that this given the clarification for an interim basis they will probably have some restriction if not keep it as stringent as being six monthly?

Rajeev Jain I am going to request Pankaj who is our Chief Compliance Officer to actually answer that.

- Pankaj Thadani** Yeah, basically I think they really wanted to curb this bad practice that NBFCs were following of to this retail issuances under this gap, so they had come up with this six months gap. The wording as you have rightly pointed out is they have said we are not operationalising this immediately but we will come out with a set of guidelines in due course of time. I think they will see how the market behaves, how the NBFCs behave in the next few whatever time frame they have in mind and then they may come out with a guideline I think because if the practice is not curbed or some other smart practices come out they will definitely come up with something.
- Adarsh P** But obviously the intention has to be non-disruptive at least on the institutional side, right?
- Pankaj Thadani** Yeah, but if NBFCs are not abiding by this so your guidelines in spirit then I think they will definitely try to curb that practice.
- Adarsh P** But more retail or you think even on institutional side you think?
- Pankaj Thadani** No, institutional side nothing like. For instance when we represented to them we said forget we are not bothered about 49 investors in totality if I total up my debenture holdings I do not have more than 160 holders. So that is all there pretty comfortable with for people who are doing it in a reasonable and are abiding by this spirit.
- Moderator** Thank you. We have the next question from the line of Manish Ostwal from K R Choksey. Please go ahead.
- Manish Ostwal** My question on the credit cost said again last year on a full year basis we have reported a credit cost around 125 basis points and now the segment like two-wheeler also giving some stress and other segment like construction equipment and infrastructure loan book that book also under stress. So, on a full year basis some of the booklets of your loan book are providing some stressed so this year the overall credit cost what is your sense?
- Rajeev Jain** This 125 basis points is on lending assets or average assets?
- Manish Ostwal** Average asset of your loan book.
- Rajeev Jain** Last year?
- Manish Ostwal** Yeah, last year.
- Rajeev Jain** So it was 1.1% of the closing assets, so average asset he is probably right it was 1.25 or I would say we would like to hold within that range of average assets 125 basis points.

- Manish Ostwal** And secondly sir, the 6% book of which the construction equipment the short term infrastructure loans have you done any stressed test analysis or what kind of stress we can see in next couple of quarters. Because we have restructured in Quarter 4 and also some account and on that we have provided Rs. 7 crores of provisioning so any kind of lumpiness is there in the portfolio?
- Rajeev Jain** If you look at this point in time no, so I would break that in to construction equipment and infra. Infra you do not know until you do not get. In construction equipment given that we have de-grown the portfolio by virtually Rs. 400 crores in the last one year the portfolio is fully vintaged and we are in once we repotes. So I do not foresee any lumpiness emerging the average largest customer outstanding has also dropped by 45% in the last one year. So if my peak construction equipment, customer exposure used to be Rs. 8 crores to Rs. 9 crores is down to Rs. 5 crores today on a per customer basis. So we do not expect any more surprises in the construction equipment business. In the infra business as I said we do not know until we do not get. So at this point in time now even in that business from Rs. 800 crores of assets that we had in March '12 we are now down to Rs. 450 crores. So and we are getting interest payments and we getting principle pay downs which reflects in the fact that from Rs. 772 crores you are now down to Rs. 440 crores. So we have seen between both these businesses as pay down of over through regular pay down of our Rs. 700 crores. So you are not going to see worsening situation here is what I would like to believe from an orientation standpoint.
- Manish Ostwal** Then lastly this the one clarification in annual report it is reported that we are making provision for unexpected loss NPA not yet recognized so what is the policy for this provisioning line and 2) What is the outstanding number as of today?
- Rajeev Jain** So what we provide in bucket 3 to 5 is that what we provide right as we have said in bucket 3 we provide 75% better income consumer durables and so on and so forth. So now what is that we can give you a provision. The buckets already given to you and that you can circle up in that sense and number is also mentioned in the balance sheet as Sandeep tells me.
- Manish Ostwal** For reporting the gross NPA purpose we are not reducing but when we report the net advances for balance sheet purpose then we reduce that provisioning from the gross advances, right?
- Rajeev Jain** Yes.
- Moderator** Thank you. We have the next question from the line of Mangesh Kulkarni from Almondz Global Securities. Please go ahead.
- Mangesh Kulkarni** I just wanted to know the outstanding borrowing figure?
- Rajeev Jain** Outstanding borrowing Rs. 14,211 crores we had said that.

- Mangesh Kulkarni** And sir also some colors on your pilot project on the Gold loan. How is our experience looking at the recent....
- Rajeev Jain** We booked the first gold loan four days ago, so we went live in June 1. So first gold loan is yellow in color. I think that is the only color that I have. 1) What we are surprised having said that on a more serious note is we started off with CD because that is the business we understand. 2) On 1st of June we have done 400 to 500 loans we are surprised by the momentum. We are surprised by the value, the ticket size is holding to that of the average ticket size that we do in 101 cities in the country. I think that is the only color that we have. Gold loan we have just started. Refinance against vehicles we will start in the next 20 days. So it is a phased manner launch. So we will do this year around Rs. 170 crores to Rs. 180 crores of disbursements in all these three businesses through the rural learning verticals and build a business model and a business construct in the next 12 months and try and grow this in the next 2 to 3 years" time.
- Moderator** Thank you. Participants, that was the last question. I would now like to hand the floor back to Mr. Karan Uberoi for closing comments. Over to you, sir.
- Karan Uberoi** Yeah, on behalf of JM Financial I would like to that Mr. Rajeev Jain, Mr. Ian De Souza and Mr. Pankaj from Bajaj Finance and all the participants who joined us on the call today. Thank you and goodbye.
- Moderator** Thank you. Ladies and gentlemen on behalf of J M Financial Institutional Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.