



“Bajaj Finance Q4 & FY13 Earnings Conference Call”

May 15, 2013



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Moderator

Ladies and gentlemen good day and welcome to the Bajaj Finance Q4 and FY13 Earnings Conference Call hosted by JM financial institutional Securities. As a remainder all participants' line will be in the listen-only mode and there will be an opportunity for you ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal and operator by pressing * followed by 0 on your touch tone phone. Please note that this conference is being recorded. I would now like to hand over the conference to Mr. Karan Uberoi from JM financial Institutional Securities. Thank you and over to you sir.

Karan Uberoi

Good evening everybody and welcome to Bajaj Financial Earnings call to discuss the fourth quarter result. To discuss the results we have on the call Mr. Rajeev Jain who is the CEO and Mr. Pankaj Thadani 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

Good afternoon to all of you. Overall the company had a very good quarter and a very good year. We ended March 31, 2013 with an AUM of 17500 crore which was in line with what we have forecasted of 17500 to 18000 crores. Our profit after tax for the quarter was 164 crores, which is a growth of 52%.

Overall for full year the profit to after tax was 591 crores which was growth of 46%. The momentum really in the fourth quarter came from strong volume momentum across lines of businesses and very strong credit for performance also across against our consumer and SME lines of businesses. On the commercial business, we continue to maintain a cautious view. That's really the sum and substance of the growth just a point I want to make on credit performance, the gross NPA remains steady at 1.09%, net NPA was at 19 basis points. This gross NPA and net NPA is largely being range bound now for the last two years and as remained reasonably strong. It contributed significantly to the difference between the income which grew only by 35% and profit after tax is grew by 52%. We have uploaded the detail presentation which has management commentary as well on the website. I would request you to actually look at it and if any questions you can ask later as well. Write now I am open to question.

Moderator

Thank you very much sir. Participants we will now begin with the question and answer session. We have the first question from the line of Manish Oswal from K R Choksey, please go ahead.

Manish Choksey

First question on this growth in the two wheeler financing business because the growth in Bajaj Auto sales was weak during this quarter so I mean the penetration increased significantly during this quarter or what happen, could you?

Rajeev Jain

So in fact if you also see the management commentary that you have given in the investor presentation Manish that two wheeler financing growth rates have eased, so clearly we are holding between 28-30% of our contribution but overall has the absolute numbers remain flat inline what Bajaj Auto is doing in domestic sales are marginally fallen yet, but three wheeler business which we have now been consciously investing over the last few years that has grown.

In FY12 our three wheeler contribution market share of Bajaj Auto three wheelers were used to be 9%, last year is 14%.

Manish Choksey Two wheeler we have 30% market share Bajaj Auto, three wheeler how much sir we have market share?

Rajeev Jain 20%, it is at 20%.

Manish Choksey Okay and secondly have you sold loans during this quarter?

Rajeev Jain We have assigned 330 crores worth of loan as part of our ALM strategy to various banks on March 31.

Manish Choksey 330 crores.

Rajeev Jain 330 crores yeah.

Manish Choksey Yeah because when I am looking this quarterly data of deployment in the outstanding loan book, on a last three quarter the number was I mean opening loan book plus deployment minus closing loan book, the number works out 3200 to 3600 kind of range.

Rajeev Jain No that is because the consumer durable business, our run-off are very high so that is what we have to do except that we have assigned 319 crores in the quarter 1 gone by.

Manish Choksey Because if that the phenomena then the march quarter of last year the similar kind of jump in terms of repayment cum sold figure the residual number, I mean opening balance plus disbursal minus closing loan books, if we do that math, so during this quarter the number slightly on a higher side so that is why.

Rajeev Jain In terms of repayment.

Manish Choksey Repayment.

Rajeev Jain There has been no "one time large repayment that we have observed or seen", so it's largely a natural attrition and as you are aware we don't charge for the prepayment, but even that is natural attrition only. The only sell down that we have done in the 330 crores sell down. It's not a sell down, its assignment in the quarter that is gone by.

Manish Choksey And secondly could you give me the outstanding borrowing number and what is your of cost funds during the quarter?

Rajeev Jain The total borrowing was 13150 crores, the borrowing cost is remained range bound at between 9.7-9.8%.

- Manish Choksey** And the construction equipment from the quarter 3 to quarter 4, I mean the quality is stable or there is still deterioration on sequential basis?
- Rajeev Jain** No there is improvement in sequential basis.
- Manish Choksey** So what is driving improvement? Could you explain that?
- Rajeev Jain** Clearly think that things can go worse than this is what is the point? In quarter one where we have 97% portfolio is year current, ending quarter 3 to 90.7 to I think which is current, so clearly things were not even supposed to go this bad, but given that they went this bad they are not supposed to go further down from there on. So clearly when they say you have seen a bottom in the business, I think that's correct that we have seen bottom in the business. We should start to see improvement from here on hopefully.
- Manish Choksey** Okay lastly what is your outlook for FY14 in terms of growth in especially the segment which is you cautiously de-grown this year I mean construction commercial finance, construction equipment infrastructure finance. So how that segment will look up in FY14?
- Rajeev Jain** So overall I would say our growth will be 20-25% on assets and net income and in profit having said that we are carefully watching quarter 1. Based on quarter one performance we may revise the guidance. So that is point one. Point two on commercial, we have de-grown 31% last year on a YOY basis, we think the bottom has been created. We will start to gradually grow construction equipment and followed that are good infra in the second half of the year.
- Moderator** Thank you. We have the next question from the line of S Natraj from Quantum Advisors, please go ahead.
- S Natraj** Hello, I just wanted to understand, how the subvention thing works in this three wheeler and consumer durable parts? Can you just explain the business please if it is possible, thank you?
- Rajeev Jain** Essentially it is done at a particular IRR and the cash flows are determined over the life of the cash flow and the NPV of that cash flow has taken and we the amount is paid by the manufacturer to us. So that's area how it works and that amount is accrued as income in the month in which it is received.
- S Natraj** When we pay to the manufacturer in terms of the loan amount that we pay to the manufacturer, do we get a levy of some certain month or 90 days that you pay to the manufacturer?
- Rajeev Jain** No, we actually on the other hand have a cost, by the time we raised the bill and received the money its 60 days from the time that we actually have financed the product or the customer so actually the other way around rather than we getting a leeway.
- Moderator** Thank you. The next question is from the line of Sameer Kulkarni from Vantage securities, please go ahead.

- Sameer Kulkarni** Were do you see set quality in the commercial business going ahead sir?
- Rajeev Jain** We think I mean it's already improved versus quarter three. We think overall there should be improvement or at least stabilization from here on. When will it start to improve significantly I think this is just sometime away. I don't foresee that at least for the first two quarters, but should we see further deterioration from here on, I don't foresee that.
- Sameer Kulkarni** How do you see the growth in the Mahindra Financing business sir?
- Rajeev Jain** See given that if you look at all the CM data or you look at the April data that's come out for various auto companies seeing that pretty soft. Now if the things are soft the auto companies who are downstream companies are not investing in large CAPEX. So they have either working capital needs and if the demand itself is slow the working capital demand slows and if they don't foresee very clearly say from a future standpoint growth of the business then they are not investing in CAPEX, so things are pretty soft at this point of time, but the health of the auto component companies is good. So that's a good side and they are very clear unless and until they see very clear horizon from the growth standpoint. They are not going to commit investments. So that is the state. Now where we are is that we are very small total book is a sub 1000 crores, we can clearly grow these for the last four years have worked only with Bajaj Auto vendors. Last year we approved a business plan to start working with non-open market, large principals as well. So we will still grow 20-25% despite the industry is not growing.
- Sameer Kulkarni** And given the target for the net income growth, so can you elaborate on AUM what is your target sir?
- Rajeev Jain** It will also grow 20-25%.
- Sameer Kulkarni** The last question on the (Inaudible) 12.30 contribution what is your market share of Bajaj Auto sales?
- Rajeev Jain** 20% of their domestic sale.
- Moderator** Thank you. The next question is from the line of Keshav Harlaka from BHH securities, please go ahead.
- Keshav Harlaka** Sir I want to get some clarity on our company applying for a banking license. Can you throw some light on that sir?
- Rajeev Jain 13.17** I wish I could throw light, but I think its very premature, are were preparing to file yes, but we are essentially awaiting a set of question that have been asked by various aspirants of the banking license from Reserve Bank. Reserve bank is essentially agreed to issue a set of consolidate all those questions and respond in a FAQ manner. We understand it is expected to come out sometime this week.

Keshav Harlaka Okay sir, the second question is if we are filing for a banking license, would it be filed under Bajaj Finserv?

Rajeev Jain Bajaj Finance will apply for a banking license.

Keshav Harlaka Will apply for a banking license right that's the only clarity I needed.

Moderator Thank you, the next question is from the line of Anand Laddha from HDFC, please go ahead.

Anand Laddha I just wanted to understand on the consumer finance business, what could be the disbursement in consumer durable finance at this quarter, I mean break up of the whole segment, how much of the business is for two-wheeler and three wheeler? What was the personal loan salary disbursement?

Rajeev Jain Anand we essentially don't share it and I would definitely not share on open calls. So may be you should work with Sandeep Jain who runs IR.

Anand Laddha Fine at least you can give some idea how has been the overall demand the consumer durable, are you see some slow down in terms of consumer expanding?

Rajeev Jain See that industry has grown probably 8-9%, we probably grown 20%, okay so that should give you some level of texture. I think the industry size, was last year 37000-38000 crores, we have now expanded in to lifestyle financing. We have just launched quarter four, digital product financing. We stitched a partnership with Apple for iPhone 4-5, so we are continuously expanding products geographies in categories to grow the business. So I would just however add that the overall momentum across lines has remained strong. Other than the two-wheeler which I already articulated earlier, which has slowed and we were very dominant lender in that space. We are already at 28-30% market share. So if the principal does not grow, we will have difficulty growing as well.

Anand Laddha Just wanted to understand again on a consumer, a year back we were only the large player, now if I look at the any of the big shopping mall or Croma or any of the outlet, I think now almost all credit card companies offering the same service. So just want to understand how has been the competition growing?

Rajeev Jain The competition has grown from one to two non banks as well, credit cards are pushing to grow the fees and in fact that is the reason we have also applied to reserve banks for a credit card license to basically sell to our existing customers. We understand this strategic importance of the credit card business for us that's why we entered into co-branded relationship with Stan Chart as well, but it hasn't met the strategic objective that's why we want to do it ourselves. So we will hopefully sometime in the current year launch our own credit cards business as well,

Anand Laddha Just wanted to understand on a margin side do we see some sort of compression or improvement in the next year as a proportion of SME and commercial again start improving.

- Rajeev Jain** Yes you will see, no actually so yeah you will see margin compression but you will also correspondingly see change in operating leverage, you are also correspondingly see lower credit rate, loan loss and provision. So net-net having said that clearly the consumer business is delivered disproportionate profitability, so could you in the process see a reduction in the overall ROAs in the process may yes, but that assumes that we will stop growing consumer, which at least at this point in time and we are 45 days into the year. We are not seeing in that way.
- Anand Laddha** Alright sir just last question, keep on reading in the media that your plan to enter into rural India also, do you have any plan of doing auto financing also apart from Bajaj property and other companies?
- Rajeev Jain** Not essentially, no we are launching a separate rural business in the company, which is rural lending vertical in the company so we have 10 lines of business this will be 11th line. We are launching in 13 towns in Maharashtra which will have another 40 spokes to it. We are launching with the gold loan business and a refinancing of mobile asset. So essentially we have taken a call to not do loans for which we already do which is two-wheeler. We will do refinancing and that refinancing could be against gold, or monetized gold or monetize this current free mobile assets. So we are going into these 13 markets. It's a test strategy for the current year and based on our experience this year, we could growth the business next year.
- Anand Laddha** Okay thanks, that's it from my side.
- Moderator** Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs, please
- Shyam Srinivasan** Thank you for the opportunity to ask questions. My only question was on asset quality, now we had gross NPA of about 1%, last quarter now it is about 1.1%. I know these numbers are really small, but can you give us some thought or color on what has happened and the presentation also talks about the fact that the credit quality in Q4 was better than Q3, so this seems to be a disconnect here because NPA ratios have gone up. So can you just help clarify that?
- Rajeev Jain** If you see the presentation, if I take business vertical by business verticals, in the consumer electronic business 97.8% of the portfolio was current that's stayed in December, that's stayed at 97.8. So the two wheeler and three wheeler is actually improved from 90% to 90.5%. 89.8% to 90.5%. Personal loan cross sale has improved from 95.5 to 95.7%. Small business loan is improved from 90.5 to 98.7%, loan against property 99.6% was current has moved to 99.7 current. There is a marginal drop in home loans portfolio on account of one client, which has moved down from 99.9 to 99.8. Construction equipment is also improved from 90.2% current to 91.7% current. So if you see business by business you actually improved in terms of our current outstanding with the client. Now 1 to 1.0 client that's the question.
- Pankaj Thadani** Basically is the case we are moved to provisioning which is 180 days passed due and in some business its 90 days passed due. What you see in the portfolio quality chart these are cases which are standard in nature however in bucket. The portfolio in that sense are improved however, the overall NPA has marginally deteriorated by 9 basis point.

- Shyam Srinivasan** Okay can you just help us clarify which in terms of the four to five product lines, main lines, which where are you in terms of the days passed due ? How do you recognize it now?
- Pankaj Thadani** Is that what you see is bucked one is 30 days passed due so if I take an example, the colors are so lets take for a moment home loan portfolio because there is only one color their that's say customer who is 150 days passed due. So it's actually only one customer who is 150 days past due because you see a single color there. So the customer they are all current actually. So there are no customers in 30-60-90 and 120. So that's the way to read it.
- Shyam Srinivasan** And you told us in the last quarter that about 32 crores is what it will for you to change from 180 to 90 day DPD. So that nothing has changed on that term.
- Pankaj Thadani** So these numbers also include further tightening of provisioning that you have done in the current quarter. We have not articulated that because that number was 4-5 crores, that number is also included so in the process the number will further drop. It will drop down to 25-27 crores in the process.
- Shyam Srinivasan** Okay thank you so much.
- Pankaj Thadani** 45 crores included a 5-6 crores number.
- Shyam Srinivasan** Okay thank you. That's it from my side.
- Moderator** Thank you. The next question is from the line of Umang Shah from CIMB India, please go ahead.
- Umang Shah** Congratulations on a good set of numbers. I just had a couple of questions one more regarding the classification home loans are a part of the SME business right, so the salaried home loan will be a part of SME or would it fall into consumers?
- Rajeev Jain** We just started that in February, the numbers are not very relevant. It will logically go and sit in the consumer business. From a classification standpoint as you go forward and as the size builds.
- Umang Shah** Yeah got it. So just wanted to understand the SME segment, what has led to a sharp disbursal growth in this quarter which segment particularly?
- Rajeev Jain** Overall we are pretty steady. I mean we are opened seven new locations in the SME business in third quarter. We are also continuing to as we gain scale, we are continuing to peel the onion and create new channels in the company. So we are investing in direct channels in a very big way, so those are contributing to larger growth. Overall size continues to remain very small in the SME business compared to what the size of the market is. We can continue to grow reasonably with a reasonable degree of robustness
- Umang Shah** I understand the only think that I was trying to get is that the product would be loan against property which is driving growth or

- Rajeev Jain** Yeah all 3 are driving, working capital loans against property and loans against securities, all 3 are growing. There is no dominant contribution being made for one to create “a huge disruption or skew in the overall model”.
- Umang Shah** I understand, great. Second question was pertaining to what Anand was asking about competition similar to that I mean mobile phone is something which we will not do earlier, is it something that we have started now?
- Rajeev Jain** We started in February, but we are not participating as you see in the whole Samsung story, every single loan that has been done for Samsung by the credit issuer has bled money, 45 days ago you saw one of the largest private sector banks being part of it, now you don't see them being part of it. We are not prepared to do business for the sake of size and for scale or for visibility. Mobile is amongst the highest risk pieces. Television is installed product, washing machine is installed product, desk top is an installed product, tablets and phones and laptops are not installed product. You can walk into the stores, buy it and go away. It has a very different degree of risk. On the different degree of risk, if you have to reduce your margins, it's must business. So we don't want to be there, did we have the choice to participate in the Samsung 0000 and be a 0, yes which is not to be one. So that's why we tied up with Apple, we don't want to do quick and dirty businesses. If they see finance as a way to push premium products and as a sustainable driver of creating higher value per customer then they need to work with us otherwise if it's a promotional view, then we are not the right people.
- Umang Shah** I understand, also on the consumer durables space of the television or washing machines or refrigerators quite lot of financial have now come up with I mean typically a credit card, a bank issuing credit cards, so typically I can just wipe it off and without any down payment I can take the equipment away. So are we still insisting on down payment or even we have moved down to a zero down payment kind of a thing.
- Rajeev Shah** There is no change in our model. The only one of the change is that we have an EMI card business that crossed the **million shifts (Inaudible) 27.13**. That business contributes to 30% of our sales. Actually existing customer used to contribute 30% of our sales, now they contribute 40% of our sales. So it's a close loop plastic we essentially have and in fact our overall credit cards strategy weaved around close to plastic that to the top 400000 customers we will go out of those million which hopefully by the time we get approval from our reserve banks that number will be 1.5 because we issued 40000-50000 on every month. The number is closed to 1.6 to 1.8 million. We give it to half a million of our best customers with a 0% financing loaded on to it. Our overall view to quickly talk about increased competitive activity, six years ago financing used to contribute 15% of the sales, right. Today we are 15%. So more competitors may not necessarily mean the pie is being cut among different people. It may only grow the market as long as there is proposition about the consumer, manufacturer, and the retailer.
- Umang Shah** Right and just one last thing on this EMI card, if my understanding is right so since it is to our existing customer so even if we are going with a 0 down payment the risk remains limited right?

- Rajeev Jain** No we don't do zero down payment even there. The scheme zone changes. It is just that he does not have to give, documentation he does not have to give, checks he does not have to give KYC because that's already been done.
- Umang Shah** So it works like a normal credit cards, but down payment still remains there.
- Rajeev Jain** 30% down payment needs to be paid. There are 5% to 7% schemes where we don't charge anything from the customer which is 100% financing, but as part of the promotional strategy, rather than a business strategy.
- Umang Shah** And just one last thing, two businesses that you are talking about one is salaried home loans which we have launched recently, second you are talking about refinancing of mobile assets, so typically both these businesses if my understanding is correct, are low margin business so is it that structurally we are now probably entering a stage wherein the margins would come off even a over a two, three or four year period, so what kind of RoA trajectory are we seen then?
- Rajeev Jain** Trajectory remains steady so that's one point, I think even in Q4 to that extent, on long term basis have we been guiding that clearly should the investing community look at after the 3% RoA and 18-20% RoE, yes. Last two consecutive years we have delivered consistency between 3.9-4.2% RoA, but we are not being driven by size so let me importantly state that. We are not doing home loans for size. After a checking account it's the more sticky product globally. We have build over the last three years robust home loans for self-employed business. But that contributes to only 15% of the overall home loans business in the country and given our confidence in having created a reasonable franchise we wanted to expand to home loans of salaried, but the margins in home loans self-employed are itself are low, margins in home loans salaried are lower. So we have created a strategy where by we will only hold 30% of those assets and 70% of those assets will be down sold or assigned to companies or banks who are looking for good quality assets. And we have built now over the last three years we will have been assigning assets and we have seen that those assignments that we have done have performed exceedingly well. So I am today setting on 2.5 thousand crores of assignment approvals and have assigned only 319 crores in the last quarter gone by. So we have first built assignment pipeline and now we are building the business on the home loan salaried.
- Umang Shah** Yeah, basically my question especially for these salaried home loans comes from the fact that our borrowing cost is at around 9.7-9.8 where in we have banks which are offering home loans at similar kind of rates?
- Rajeev Jain** Correct, so we would do. Our focus is on customers with 15 lakhs and above on annual salary who are looking at purchasing a property between 70 lakhs to 1 crore. We are cognizant that the business adjusted for fees and insurance sold and various third party products sold would essentially ratchet up only to 50 basis points if I keep only 20% or 30% on asset. I have to provide for only 30% on the asset of the capital, it moves my RoE to a reasonable hurdle rate of 14-15%.

- Umang Shah** Yeah, but then so logically more you grow this portfolio, okay so you hold 30%.
- Rajeev Jain** Yeah I hold only 25-30%, actually 20% is what I would hold. Because I would have 5x in my “ROE” isn’t it. So if gear 6x and I deliver 3% RoE in the business lets assume if I gear only 6x, but I am holding only 20% of this five times movement that is 15% RoE. And I get the customer who is sticky with me to whom I will sell multiple other products like personal loans, lifestyle, CD, consumer durables, digital products and so on and so forth from a franchise standpoint, insurance, property search services, wealth management and so on and so forth.
- Umang Shah** Just one last question you mentioned in your initial remarks that post 1Q you may or may not review your growth guidance so just wanted to understand, we are already kind of one and a half month into the quarter so far how the trends have been probably is it....
- Rajeev Jain** So far I would say the momentum has been strong.
- Moderator** Thank you. We have the next question from the line of Subramaniam PS from Sundaram Mutual Fund, please go ahead.
- Subramaniam PS** How much would have been the LAP disbursement so far in the entire year for us?
- Rajeev Jain** We are among the top four-five originators, I would say in the region of 3500 to 4000 crores.
- Subramaniam PS** Okay and out of your total consumer business AUM, how much would the lifestyle business now be contributing?
- Rajeev Jain** The lifestyle business is a very new business. Last year we had done 240 crores of disbursals so its overall contribution to 20,000 crores of disbursals is negligible. This year we would like to grow that business to around 500 crores of disbursals and we are tracking reasonably well on that count.
- Subramaniam PS** Okay and somebody earlier asked the question on the banking license whether it would coming Bajaj Finance or Finserv and you answered that it would be Bajaj Finance which would be converting into a bank, but how would be holding structure largely be?
- Rajeev Jain** We will continued by own by Bajaj Finserv. We will have to create NOFHC, I am assuming in between that is what RBI requirement is.
- Subramaniam PS** So the share holding of Bajaj Finance would be transferred to that NOFHC is it?
- Rajeev Jain** Which is 100% own by the Bajaj Finserv. It is not Bajaj Finserv would create a NOFHC and then transfer his holdings into rather than 100% nonoperating holding company so that’s what may happen, I am assuming.
- Subramaniam PS** Because if that happens then the investors in Bajaj Finance would have a lesser stake in the bank right than what they have in Bajaj Finance right now?

- Rajeev Jain** No, what would change, today Finserv own 62%, other institutions and retail participants hold 32%, it's a same way that will remain except if we need more capital and retail investors institutions don't deem appropriate and if promoter shareholders feel comfortable then they may invest the residual fees. I am not clear as to why would others investors may get impact, why would their stake go down?
- Moderator** Thank you. The next question is from the line of Sachin Kasera from Lucky Investment Managers, please go ahead.
- Sachin Kasera** Sir, can you just share what was the growth in two-wheeler and three-wheeler individually and is there scope to increase penetration there for us in Bajaj?
- Rajeev Jain** We are largely now growing in line with Bajaj Autos growth so clearly principle would have to grow for us to grow because our penetration numbers are between 20-30% so if they have degrown 4-5% we have been there as well in the domestic sales and if three-wheeler is growing that's one part, but our share of growth is faster, higher there because our contribution is much smaller there.
- Sachin Kasera** So we are now at 20% in case of three-wheeler. Is there scope to increase it further or this is the optimum that we have reached.
- Rajeev Jain** That's correct.
- Moderator** Thank you. The next question if from the line of Srinivas Rao from Deutsche Bank, please go ahead.
- Srinivas Rao** My question pertains to again your credit portfolio which you kind of talked about it sometimes. I specifically the detail how much you have given bucket, I wanted to understand unless time wrong particularly in loans against property and home loan portfolio it seems that the fourth and fifth bucket have become quite big, is any particular reasons seasonality or?
- Rajeev Jain** No there is no seasonality. Our focus is largely on super affluent clients. So if you take loan against property that number is 30 basis points and 30 basis points is between bucket 3 and bucket 4 and bucket 5. There we take legal course of action and essentially work with the client on either him paying us down or he is regularizing himself, so because these are larger transactions one or two accounts can move 10 basis points.
- Srinivas Rao** Sir, my question is sadly more general that property portfolio home loan and salaried personal loan portfolio these three seem to be where the buckets have moved. Is there any general underlying weakness more than what we....
- Rajeev Jain** No, as I said earlier to you that loan against property and home loans one or two customers can move the buckets. Okay it's a deal base transaction. Salaried portfolio is a new portfolio. It's an 18-19 months old portfolio so you will see this will be more the texture. It's a pretty consumer-orientation to the business. The loss rates in that business can be 100 basis points, have to be 100

basis points so you will see it is more like a consumer portfolio the salaried personal loan portfolio.

Srinivas Rao

Are you seeing any signs of pickup in demand or underlying in the consumer confidence moving up so to say?

Rajeev Jain

See, one of the big headline numbers for the year normally, the start of the year is AC sales, ACs have sold very well so far in the first 45 days. So that's one headline number. Now is it because heat is so strong that consumer is forced to do discretionary spending or other way around we can't place our finger on it. But it is dispersed, it is distributed across the country in fact to that extend Maharashtra is impacted a little bit because of LBT otherwise the growth could have been stronger. Otherwise I think things are pretty steady is what I would say and growing.

Moderator

Thank you, the next question is from the line of Hiren Dasani from Goldman Sachs, please go ahead.

Hiren Dasani

Rajeev, few data points clarification. You said a three wheeler it has moved from 9%-20% penetration in one year.

Rajeev Jain

That's correct.

Hiren Dasani

What is the total auto disbursement let say for Q4 and AUM of auto.....

Rajeev Jain

The numbers are very small. It is 7000-8000 because our monthly sales is between 2000 and 2500 versus let say if you take Hiren the two wheeler number they are 7.5 lakhs. The only point I want to make, the average ticket size is 100,000-120,000 versus 35,000-40,000, in the two- wheeler business. So the 20% may look very large, but two years ago we cut the two-wheeler business and three-wheeler business into separate vertical.

Hiren Dasani

Sorry, I am missing the number. You are saying that you are financing about 2,000-3,000 two-wheelers combined.

Rajeev Jain

Correct, so 8000 are locally sold and finance between 1800-2400 depending on the month.

Hiren Dasani

Okay, and till last quarter you use to disclose the disbursement and AUM of auto, so if you can just disclose that for the Q4.

Rajeev Jain

That number is around 3200-3300 crore of AUM, since you asked me, but otherwise we increasingly don't want to. They are contributing to around 12-15% of our book 3200 crores is where they would be.

Hiren Dasani

Sure and the other question is that on the LAS book what would be the promoter funding?

Rajeev Jain

Less than 30% and portfolio is very small so we are very comfortable, our orientation is essentially not a promoter orientation and if we have a promoter orientation that is for clearly

marquee promoters and clients and as a result the book is small because we do not have a return view on the business, but a risk view on the business and the overall portfolio is small, having said that we are investing in the loan against securities business, we have just gone live with a digital loans against securities platform which provides an end-to-end approval to the client. We are growing the business to our existing customers as well because it helps me across collateralized loans better, it helps me create a liquid security orientation to the customer so we are growing the business. You should see the business grow in the current year on the retail side.

Hiren Dasani On the bucket clarification the understanding of the bucket if I understand correctly? If I look at consumer electronics when you say 97.8% that is the current collection right?

Rajeev Jain So if I have a million customers 99,700 have paid me as of March 31st, 2013. They have no installments due.

Hiren Dasani Okay, so there is no overdue for 97.8%.

Rajeev Jain Correct, that's correct. 99.7%.

Hiren Dasani Yeah, that's for LAP, I am saying for the consumer durable.

Rajeev Jain That's correct.

Hiren Dasani And then the remaining lets say 2% odd would be spread between 30 day overdue, 90 day overdue, etc.

Rajeev Jain Correct. At 90 day overdue 75% is charged off.

Hiren Dasani In this consumer durable.

Rajeev Jain Yes, and business by business we have built a framework around it.

Hiren Dasani Sure and you mentioned that on the salaried home loan there is a 100 bps loss should be built.

Rajeev Jain Salaried personal loan.

Hiren Dasani The other thing is that you have taken so many new initiatives in terms of expanding product classes, categories, distribution, geography, etc., so within each business how do you evaluate in terms of control mechanism because now the businesses are new and yet to be seasoned?

Rajeev Jain So, the new businesses fundamentally if I take, if I look at it lifestyle business is the only business that we have launched last year, salaried, personal loans we launched in 2011-12, so we normally take a business at a time Hiren and that has been the approach so this year our approach is to take rural lending business before we invest in a business so our approach has been consistent that we pursue strategic business unit design so there is a business head for each. We overtime have now invested into a Consumer Business President, a SME Senior Vice-President

and a Commercial President. So we have created structures in the company and each President manages three to four businesses and I have parallelly been investing in the risk organizations, in the operations organizations, and in the underwriting organizations and that reflects in the health of each one of our business, so we are not “being driven by one or two lines and rest are hobbies”. Each one of them we have a view that we should be among the top three-four originators in the market place and we are not in a hurry so we will get there is what our orientation is. How correct time will continue to tell.

Hiren Dasani On the gold loans and refinancing mobile assets you mean second hand financing of trucks or cars, etc.

Rajeev Jain Not trucks, but it would largely be intra-city cars, two-wheelers, three-wheelers essentially monetizing his free assets that is the orientation because we don’t have the loan for we don’t have the 1) They are lower RoA and RoE businesses and 2) You need a truly stitch back to back captive orientation to run a loan for business.

Hiren Dasani Is this more of a proposed priority sector kind of a...

Rajeev Jain No, so we have been at it for the last 10 months when banking was not a fad, so banking has become a fad only in the last two months, more of a fad or a reality.

Hiren Dasani Why do it? If it’s a lower RoA and lower RoE?

Rajeev Jain No, and that’s why we are getting into gold loans and loan against because they are 16-18% RoE business. So if we have gotten into loan for that would I have meant we are “preparing to sacrifice margins for scale”. As I said earlier we don’t have scale orientation. Scale comes as a result of part of being a business strategy, yes it’s acceptable not otherwise.

Hiren Dasani Gold loans is again HNI in that category?

Rajeev Jain So it will be more paged against the banks whose average ticket size is between 45,000-60,000 rather 20,000-25,000 which is we are gold loan companies are. So which means Rs. 80,000-90,000 of asset being pledged to us so that is where most private banks are versus non-banks and I understand who are more around 25,000-30,000.

Moderator Thank you. We have the next question from the line of Manish Oswal from KR Choksey, please go ahead.

Manish Oswal Sir, during this quarter we have launched property services, so how it help in our LAP or other businesses is number one and secondly what is the fee structure working there?

Rajeev Jain So, essentially our orientation to launch property search services business was to provide what we call it knowledge in a researched view to our clients. That’s why we launched it with JLL so we are now providing to our clients where our focus is largely on as you are aware of super affluent customers in the LAP business and in the home loans of self employed business. We

want to provide them knowledge and research which is not available to them normally. As we expanded this partnership we found that clearly there could be an opportunity for us to look at it as a business so we launched it in February. The sale cycles in properties search services business range from 3 months to 5 months. It's a long sales cycle. We still haven't closed the deal. It could be reasonably profitable to us given our orientation and focus on super affluent clients, but we are still testing waters at this point in time.

Manish Oswal I was wondering because since ticket size in a mortgage business is 75 lakhs to 1 crore so what kind of research because these guys...

Rajeev Jain It is not meant for them. This is meant for the loan against property customers and meant for the self-employed home loan customers where average ticket size is.... Our loan is 2.2-2.3 crores and in home loan where our average loan is 1.6-1.7 crores so they are buying properties and they are giving us properties was 5 crores and 3 crores respectively. We essentially focus on those customers.

Manish Oswal Lastly the two businesses which we have taken this year, lifestyle products and fitness equipment. Could you update what is the traction there? And secondly full year basis FY14 could you give the credit loss as guidance how do you see that?

Rajeev Jain Yeah, our average assets to loan loss provision is between 90-110 basis points. That is where I would say between 110-120 basis points where you should see the average assets to loan loss provisions. Lifestyle business, we are quite excited that business is now tracking 6000-8000 accounts a month. We are doing around 20-25 crores of sales a month. We will grow that business to around 500 crores in this year.

Manish Oswal From the current size of?

Rajeev Jain From 240 crores that we did last year.

Moderator Thank you. The next question is from the line of Mangesh Kulkarni from Almondz Global Securities, please go ahead.

Mangesh Kulkarni I just wanted to know about the three-wheeler business. Whether it is basically for the commercial or the passenger or it is mix on both.

Rajeev Jain It's a mix of both.

Mangesh Kulkarni Okay.

Rajeev Jain So the commercial piece gets driven by licenses in a way the three-wheeler business specially so when the licenses open, it sees blips in the business, but we are focused on both.

Mangesh Kulkarni And what will be the yields on these vehicles?

- Rajeev Jain** Very similar, it differs from which geography that we are in, but may range anywhere from 21%-25-26%.
- Mangesh Kulkarni** Sir in our SME loans we are currently focused mainly on the Bajaj cycle itself?
- Rajeev Jain** No, in the commercial lines of the business which is auto component financing we are focused on. We have been focused until last year on Bajaj Auto component vendors, now we are doing outsiders as well.
- Mangesh Kulkarni** Okay and does this also include the dealers of the consumer durables and franchises of a retail chain?
- Rajeev Jain** No we have a cross-sell vertical in the company which is SME cross sell vertical where we do engage our retailers and our other partners and offer them loans.
- Mangesh Kulkarni** And sir in terms of our other income this quarter of 11 crores, is there any one-off because it is substantially higher compared to previous quarters?
- Pankaj Thadani** There is nothing one-off. These are basically right part of provisions which we come to a conclusion when they are no longer required so as the growth has grown this has also grown, there is no one-off.
- Mangesh Kulkarni** Okay means it happens every quarter also, particularly this quarter it is....
- Pankaj Thadani** It happens in the fourth quarter where we reestablish our requirements of certain provision which we are carrying.
- Rajeev Jain** It for expenses necessary provision for credits.
- Moderator** 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** On the behalf of JM financial I would like to thank Mr. Rajeev Jain and Mr. Pankaj Thadani and all the participants for joining us on the call today. Thank you and good bye.
- Rajeev Jain** Thank you all.
- Moderator** Thank you sir. Ladies and gentlemen on behalf of JM Financial Institutional Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.