



“Bajaj Finance Q4 Financial Year 2014 Results Conference Call”

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ANALYST:

**MR. KARAN UBEROI - VICE-PRESIDENT,
EQUITY RESEARCH (BANKING, NBFC AND
INSURANCE), JM FINANCIAL INSTITUTIONAL
SECURITIES LIMITED**

MANAGEMENT:

**MR. RAJEEV JAIN – CHIEF EXECUTIVE
OFFICER, BAJAJ FINANCE LIMITED**

**MR. PANKAJ THADANI – CHIEF COMPLIANCE
OFFICER, BAJAJ FINANCE LIMITED**

**MR. SANDEEP JAIN – HEAD, INVESTOR
RELATIONS, BAJAJ FINANCE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Bajaj Finance Limited Q4 FY 2014 Earning Conference Call, hosted by JM Financial Institutional Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Karan Uberoi from JM Financial. Thank you and over to you Sir!

Karan Uberoi: Thank you. Good evening everybody and welcome to Bajaj Financials earnings call to discuss the fourth quarter results. To discuss the results we have on the call Mr. Rajeev Jain who is the CEO, Mr. Pankaj Thadani who is the Chief Compliance Officer and Mr. Sandeep Jain who is Head of Investor Relations. May I request Mr. Rajeev Jain to take us through the financial highlights subsequent to which we can open the floor for Q&A session. Over to you Sir!

Rajeev Jain: Thank you Karan. Good afternoon to all of you. Q4 has been pretty stable quarter and overall the year has been very good year. For the quarter, our profit before tax was at 16%, 277 Crores, profit after tax was at 11%, Rs. 282 Crores. The reason for the difference between 16% and 11% is a one-time gain that we had in Q4 on reevaluation of the deferred tax assets plus the 2% surcharge that went up as these are the difference.

On a full year basis, the profit before tax is up to 25%, to Rs. 1091 Crores. It is the first time we have across the Rs. 1000 Crores mark in pretax profits for us as a company. Profit after tax was up 22% on full year at Rs. 719 Crores.

Overall assets under management for ending March were at Rs. 24,061 Crores which is the growth of 37%, disbursements remained strong in the quarter. They were up 38% from Rs. 5100 Crores to Rs. 7042 Crores. This is despite year-on-year significant degrowth in the two-wheeler volumes. They were essentially down 20% due to the fact that we are captive and overall Bajaj Auto sales were slow. So, despite that the overall deployment remained strong due to our strong growth in other consumer businesses and in the SME businesses.

Commercial businesses continue to remain sluggish in general due to our cautious view on the segment throughout FY 2014. We acquired a record number of customers. We acquired 7.68 lakh customers in the current quarter which is 15% higher than last year.

Loan losses and provisions were up 38%. If I add just them for the accelerated provisioning which we took on account of 25-basis points, 40-basis and did a normalization loan losses and provisions were up 33% on a year-on-year basis. On a full year basis, they are

essentially again because the accelerated provision that we took off Rs. 38.5 Crores last year adjusting to that it would have again to be 33%.

Our gross NPA remained range-bound at 1.18% ending March. Net NPA was 28-basis points. We had one mid-size account of infrastructure client of ours, which flowed otherwise adjusting for that, we would have been flat at 23-basis points of net NPA which was the quarter three number ending March as well. Overall asset quality across lines of businesses as we put on investor section of our website remained reasonably steady and strong.

Capital adequacy remained at 19.5%. The Board of Directors have recommended dividend of 160%. As Pankaj is correcting me post adjusting for the dividend payout, capital remains at 19.13% is what the capital adequacy would be.

Very quickly on businesses; directionally as I have said many times, we are working on the reason why the deployments are higher and balance sheet is higher and the net income is lower is largely because of our continued readjustment of the EBITDA. We foresee in the medium term at 3% ROE business structurally last year we have dropped 40-basis point from 4% ROA to 3.6%. We foresee that continuing to gradually over a period of 18 to 24 months adjust at around 3% as we readjust and create a more stable and a more diversified balance sheet for us as a company.

Two-wheeler very quickly on businesses, the two-wheeler finance penetration remained at 30%, but because volumes were down, the sales were down as well. Bajaj Auto volumes are down our financing was down as well. Three-wheeler financing also degrew in the fourth quarter by 38%, consumer durable financing continued its strong run. We grew 39% owing to a very big reason which is digital product contribution is starting to be meaningful in nature over the last 12 months that is why a despite 9%, 10% growth in consumer durable value growth we continue to grow 38%, 39% because of one geo expansion, two digital products.

In the last quarter, we had big win with Samsung tying up with us now, they have taken us to **(Inaudible-6.03)**, they have taken us to television and it is a very, very large market that we will be able to have an opportunity to tap into as we build the partnership with Samsung and with Apple. Lifestyle financing continued its strong run. We did over 1000 customer last year. We are confident of this year doing 200,000 customers. So in a three year horizon this business could be a meaningful contributor to the overall net income for us as a company.

Mortgages, which are loan against property and home loans, remain reasonably strong. We estimate that our overall market share is in the region of around 3%. We would be among the top three or four originators of loan against property in the country at this point in time.

Commercial infra businesses throughout last year remained pause both construction equipments where ours originations are virtually 20% of what they used to be two years ago, infra has virtually been in a pause. Auto component continued to grow.

Rural lending for the first time we crossed 50 Crores mark in the quarter. We crossed Rs. 50 Crores of disbursements in the last quarter as a result of our diversified product strategy in the rural market, we are adding 21 new locations and 100 news spokes in the current year and we expect by next year which is FY 2016 the business should be a much more stronger and a profitable business for us as a company.

Moving on to the liability side, interest cost remained pretty stable. The mix clearly was 58, 41 and 1% of the contribution came from fixed deposit. Our orientation is to deliver is to build at 12% to 15% of the balance sheet coming from retail liabilities in a three to four year horizon. The experience has been fantastic. In less than 90 days we have originated close to Rs. 250 Crores of fixed deposits. We dropped pricing on our fixed deposits. We are now originating free of fixed deposits at 9.75% and despite the response has been fantastic.

We did assignment of close to Rs. 323 Crores in the current quarter ensuring that it diversifies are overall liability model and it helps improve ROE in lower margin businesses like home loans and LAP. Gross NPA I talked to you about. Fee based focus continued. We continued to distribute life and general insurance in a pretty steady manner. This year we will invest in building wealth management business. Our CRISIL fee model and financial fitness report fee model also saw good traction.

I think that is really where we are. We are open to take questions.

Moderator:

Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the Manish Oswal from KR Choksey Shares & Securities. Please go ahead.

Manish Oswal:

Congratulation on a good set of numbers. My question in growth of business going forward because if you look at this year growth predominantly it is coming from LAP and the consumer space, you have been very cautious about infrastructure space for almost one year. How do you see that that space one to grow and secondly when you say that 3% ROA, so because currently if you want a quarterly basis you are 3.1%, so the current mix to sustain going forward in terms of mix and secondly how do you see the growth coming from within the segments going forward?

- Rajeev Jain:** Manish what happens is, quarter four and quarter two are weak quarters on ROA, because the consumer businesses which are higher margin businesses, delivered disproportionately higher ROAs and that is why quarter two and quarter four are much higher, so 3.1% is not exit rate. You will see that change in quarter one and again in quarter three. So on a full year basis, having said that I would say to you, probably your structure is right, it is not like a 3.6% number it is more like 3.5% number, but it is not 3.1, so that is one point I want to make. Secondly growth we foresee growth continue to remain diversified in nature, all our businesses are continuing to grow. The mix of growth is really where the ROA modulates, so that is the second point. Third point is that clearly infra we will not grow even in the current year. Construction equipments side of the business, what we have been slowly we have been doing less, but doing has been the retail construction equipment as such. That portfolio if I will go back FY 2013 if we did Rs. 800 Crores last year, we did Rs. 250 Crores, but we did only retail between Rs. 250 and Rs. 275 Crores. That portfolio continues to even for FY 2013 vintages and FY 2014 vintages though that portfolio has continued to perform well we are restructuring the business and are slowing now starting to grow that business, but by the time it meaningfully contributes to the bottomline and to the balance sheet it may only be FY 2016. What we may do Rs. 450 Crores, but it is still not be meaningful enough, but are we starting to grow back that business? Yes.
- Manish Oswal:** Secondly in terms of your average ticket size in the segment like personal loan and mortgage and LAPs what is your average ticket size on the book?
- Rajeev Jain:** In all our businesses, the segmentation remains exactly where it has been for the last three or four years, so whether you take business loans where average ticket size is Rs. 17, Rs. 18 lakhs or LAP where the average ticket size Rs. 2.1 to Rs. 2.2 Crores or home loan where it is Rs. 1 Crores or LAP is 1 Crores, we remain very, very focused other than the two wheeler business on affluent and above customer segments that has paid rich dividends to us over the last six years and we do not see any need to change. If that means, we will grow slower we have prepared to grow slower if required.
- Manish Oswal:** Lastly, could you provide the outstanding borrowing number and mix in terms of bonds, banks and deposits?
- Rajeev Jain:** The total borrowing is Rs. 19,750 Crores ending March 31 and what did you ask next?
- Manish Oswal:** Bonds, banks and deposits mix?
- Rajeev Jain:** 58% of the balance sheet is banks, 41% of the balance sheet is bonds, which is both CPs and NCDs and 1% of balance sheet is FD.
- Manish Oswal:** During the quarter, the cost of borrowing is stable for you?

- Rajeev Jain:** It is very stable.
- Manish Oswal:** In one line item when the P&L depreciation it has almost increased from Rs. 6 Crores to Rs. 14 Crores, so any (Inaudible-14.36) depreciation, because you acquired something could you just clarify?
- Pankaj Thadani:** Manish, basically it is change in the grouping. We have clubbed depreciations and amortization which in the previous quarter, amortization was sitting in other expenses that has got regrouped, there is no major change in the line.
- Rajeev Jain:** Just to clarify and that is why you are seeing other expenses are flat, which is the growing company it cannot be, so 95 to 95.
- Manish Oswal:** Thank you so much. Thank you.
- Moderator:** Thank you. The next question is from the line of Ashish Sharma from Enam Asset Management. Please go ahead.
- Ashish Sharma:** Good evening sir. Congratulations on a good set of numbers. Just on the incremental mix I think previous analyst also asked the same question, so incrementally if I see your AUM 65% contribution is by the mortgage and other secured asset sort of the contribution is from that segment. Do you see this sort of trend to continue or you expect that the two-wheeler sort of consumer durable to do some meaningful contribution? The reason I am asking this question is impact on the yields.
- Rajeev Jain:** That is correct. As I said earlier Ashish one, quarter four and quarter two are not representative. So full year is a rightful number, clearly you will see that change in some way and some manner in quarter one; however, given that the two-wheeler business is not growing. It does have an impact on us, because the consumer businesses of which are largely three legs, there is a consumer durable business, there is two-wheeler business and there is personal loan business. There are three building blocks on which the consumer business sits on if one contributed to it is degrowing, not only not growing, it is degrowing year-on-year by 20% is very tough for us to then push up the overall growth in the consumer business. So, you would see some level of normalization or a slower growth in the consumer business. Secondly, our market share in the consumer businesses are reasonably dominant, consumer durable we are reasonably dominant, in Bajaj Auto we are pretty dominant and in personal loan we are reasonably dominant from industry standpoint. However, on the other hand, in the SME businesses and mortgage, our total market share is 60, 70-basis points in home loan and 12%, 13% in LAP, so we have 10%, 11% in LAP, so we have headroom to grow.

- Ashish Sharma:** Second question was on the borrowing, you mentioned about borrowing number of around Rs. 19,700, do we sort of raised little higher than usual, because even the interest expense number for Q4 was little higher?
- Rajeev Jain:** We are maintaining liquidity desk which is 4%, 5% of the balance sheet. We are maintaining cash and cash surpluses to the tune of around Rs. 600 Crores. So that number however on an ongoing basis it will be steady number that we have taken a strategic call to run with. So we will maintain between 4%, 6% and 8% of the balance sheet depending on our assessment of the treasury market situation. You will see it is normalized. We will run higher borrowing than we run. That is the fact.
- Ashish Sharma:** Lastly on the growth part, we have seen some sort of euphoria in the market and we expect GDP growths are better in FY 2015 and 2016. Based on your assessment, what is the growth rate we can sort of do?
- Rajeev Jain:** We should grow in excess of 20% that we are reasonably confident off. Euphoria your guys are more aware of. We think the economy is that at its worst place where it has been for long, long time. Is it froth (Unclear) or not we will know soon. We are not geared for at least our construct is not very, very huge growth at 7% to 7.5% GDP growth and as a result our construct will be 30%, 35% growth. Today, our budgets for next year, we have not created that kind of a construct, because we do not know, but we will remain nimble and we will be able to move rapidly in case the environment improves dramatically. So, the only thing I can tell you is that our credit quality remains reasonably stable.
- Ashish Sharma:** This was the next question on asset quality side, nothing to worry about it?
- Rajeev Jain:** We have put it on our website. I mean the numbers are pretty rock steady; however, we did have one infra account of close to Rs. 25 Crores which slipped into NPA in the current quarter. It is backed by hard collateral fortunately, so we are hopeful that in the next four, five months time, we should be able to make full recovery on this account, adjusted for that, we would have actually been flat in between quarter three and quarter four even the five basis point movement, would actually not have been there.
- Ashish Sharma:** We were sort of anticipating of banking license thing and we were saying that we might need to raise capital in 12 to 15 months. At this moment, in terms of capital, how we are placed?
- Rajeev Jain:** Ashish, what I have said then is what I am saying now. If we had got a bank, we would have still raised in 12 months from now, but if we had got a bank we would have raised a little larger sum, since we have not gotten a bank we are still raising between Q3 and Q1, but raise a smaller sum.

- Ashish Sharma:** Q3 of FY 2015?
- Rajeev Jain:** Sorry, Q4 and Q1, we will still even if you are going to convert into bank we would have done then, but the amounts would have been a little larger, now the amounts would be what we would require for the next two to three year needs for us as a company.
- Ashish Sharma:** Thank you Rajeev and all the best.
- Moderator:** Thank you. The next question is from the line of Kuntal Shah from Axis Holdings. Please go ahead.
- Kuntal Shah:** Just one question, our loan book in FY 2012 versus right now has grown significantly, but operational expenses are not coming down as a percentage, so is there are no economies of scale in the business, because of banking license you are investing ahead of the time that is reflected, because there is a number in 2012, it was 47%, Rs. 670 Crores on 1426, it is 1151 and Rs. 2500 unmoved. There is no economy of scale, but the loan book has moved from 15 to 25 or whatever, so what is the comment on the economies of scale and why is not getting reflected in lower opex as a percentage?
- Rajeev Jain:** When we slice, Kuntal we remain a growth company. When we slice as management our expenses, every year we invest from the next three year horizon standpoint and given that we foresee that we will remain a growth company for a reasonable period of time, we make investment plans.
- Kuntal Shah:** Rajeev, the mix of growth is also shifting towards safer loans?
- Rajeev Jain:** No, it is not just, so I will give you an example. The rural lending business that we launched last year as "it is dilutive and earning for last year" it will remain I will invest further in the current year. It will be diluting even in the current year. It is only in FY 2016 that it will turn around FY 2017 it will be meaningful contributor. Similarly wealth business, I mean we launched FD. So, we set up a center of excellence for analytics last year. We are continuing to invest in new lines or to improve controllership. Can we in a given year, do we have the modularity to take out if you look at my overall cost base of operating expense of FY 2014 of Rs. 1151 Crores, would it have been 40 Crores lower, yes, but then it would have come back to buy it on growth 18 months from now.
- Kuntal Shah:** Assuming say, two or three years view, how much longer this growth into the HR and the systems expected to continue, what I think is the percentage of it is still about 45%?
- Rajeev Jain:** That is correct. I think you will continue to see us between 42 and 45 Kuntal from an orientation standpoint is what I would say. I can tell you, therefore the current year from a

plan standpoint, we are committed to continue to invest. We will invest in building a wealth business, we are investing in the rural lending business, and we are investing in launching a midmarket commercial business. So, we are investing, at least for the current year, we will continue to invest.

Kuntal Shah: Would it be possible to quantify the kind of investments you have made towards the banking license?

Rajeev Jain: That number would be less than Rs. 15 Crores for last year, less than 15 Crores last year. It is not a meaningful or material number in the overall scheme of things. In Rs. 1150 Crores of which is nothing isn't it at a fundamental level we did not commit or make any investments without knowing very clearly as to what whether you would get it or not.

Kuntal Shah: This SME taking a market share of 53% in a product mix, are you happy with that product mix it is what the market is dictating?

Rajeev Jain: Structurally on a three to five year view, we would look like 35, 45 and 20. That will be the mix of the balance sheet.

Kuntal Shah: The commercial will expand at the cost of others?

Rajeev Jain: But only when the time comes. As the time comes I do not foresee that happening in the current year given the environment until the investment cycle kicks in we do not want to start to grow that. FY 2016, we will, sometime in quarter four of the current fiscal, we will start to grow commercial may be in quarter three onwards and pick momentum in FY 2016, but if you ask in a three to five year view structurally we will look like 35, 45 and 20 that we think is the steady rock solid balance sheet model and deliver the 3% return on assets.

Kuntal Shah: If you had not taken accelerated long loan provision, would the PAT growth be in line with AUM growth?

Rajeev Jain: You can add Rs. 40 Crores to it right. It gets to 29%.

Kuntal Shah: Versus 37%, year-on-year growth?

Rajeev Jain: Yes, year-on-year, it would have been 29%, 30%.

Kuntal Shah: Thanks. I will join in the queue for any other questions.

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

Umang Shah: Congratulations on a good year. Just a couple of question which I wanted to have one is, on the two-wheeler rather the auto side, have you thought about whether do you want to add any more products or any other OEMs?

Rajeev Jain: The answer is no. We have not thought about it. It is all I am just saying. So, I think we remain true captive lender. At this point in time we will take a strategic view as financier and appropriate point in time and once we determine and decide, we will share with you guys. I do want to just add Umang that it is not an easy business. We are already despite being captive Bajaj Financier, we do 625,000 new customers, 40% of those customers are cash customers. Now let us say as a result of doing becoming open architecture I can do a million customers, but can I collect from half a million customer in cash is a question that we need to answer very cogently even before we decide that we want to do this and that customer segmentation does not change, so I just want to park that thought with you since you ask me that question, I am just sharing with you in all standard as to what the challenge is or the scalability challenges of that business is.

Umang Shah: Basically where I am coming from that two-wheelers can past one year we have seen obviously the proportion of that kind of coming of significantly in our overall AUM mix that is kind of impacting it. Assuming that we do not add any further products in the auto segment, but continue with two-wheelers which we have been doing for a very long time with different OEMs, obviously can kind of help protect growth as well as margins?

Rajeev Jain: That is correct. So two things, Umang one is I do not think anything is going to change in the current year. The current year nothing will change even if we decide let us say for a moment it is not going to start to be meaningful. By next year; however, the rural lending business should start to be meaningfully contributing. It is a consumer business. The margins are higher. We would have invested out for two years. By the time if we take a call that we have clear strategic view that we should do open architecture two-wheeler and if we decide to do then in FY 2017 you may see change in that direction. For the current year, you should safely assume that there will be no change any new product will not come in which adds to the overall EBITDA, but also adds to the overall profit growth.

Umang Shah: Second question was related to rural financing as to what kind of product are you offering currently?

Rajeev Jain: Right now we are offering consumer durables. We are offering refinance against mobile assets like cars and small LCV and so on and so forth and we are offering gold loans. These are the three products. It is a branch based model. We also offer insurance product as a result whatever else that we offer is also being offered.

- Umang Shah:** Just one last question regarding what you have been maintaining since the beginning of the previous year that obviously the AUM growth although may remain between 25% and 30%, but the momentum in the P&L might kind of seem to be slightly slower as we gradually move towards the 3% ROA kind of a number, so in this year in FY 2015 assuming that we are expanding our assets by 20%. Is it fair to assume that the earnings growth might be somewhere in mid teens or high teens as such?
- Rajeev Jain:** Yes, that is correct. Mid teens would be a fair number between 15% and 17% growth is what we would, that is the band. If we adjust for the tax, I am leaving the tax aside, because it does not “demonstrate the true health of the business” and we have delivered a 16% profit growth in the current quarter. I think a corridor of between 15% and 18% is the fair corridor to work with and 22%, 23% balance sheet corridor is a fair corridor.
- Umang Shah:** Just one last data point in the presentation in a product segmentation slide, there is something called as ABF refinancing?
- Rajeev Jain:** That is asset backed refinancing which is offered in rural market. If you own an asset which is a mobile asset, which I can “repossess” and willing it is free which means no debt against it we are prepared to lend against it.
- Umang Shah:** Perfect, got it. Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Rajatdeep Anand from ICICI Prudential Life Insurance. Please go ahead.
- Rajatdeep Anand:** Congrats on good yearly numbers. If I look at your quarterly numbers, loan book is up 7%, but income from operational is actually down Q-on-Q which have not happened in the history of your company for a longest period of time and so you are saying that NIM is lower, but you are saying cost of funds is flat it means that probably yields are lower this quarter. So, is it entirely because of the lack of momentum in the Bajaj bikes or is it something else also?
- Rajeev Jain:** Our P&L remains seasonal in nature. Q1 and Q3 sequential P&L for us is not really relevant, so Q1 and Q3 are the strongest quarters that is where the consumer business momentum is the strongest. So, Q3 to Q4 even for the last seven years if you look at that we will always fall. Volumes will fall and NII will fall, opex will fall and so on and so forth and net profit will fall. So, that is really how it has been.
- Rajatdeep Anand:** But if I look at Y-on-Y comparison also?
- Rajeev Jain:** Year-on-year comparison is a fair, comparison to look at.

- Rajatdeep Anand:** Is it entirely the lack of momentum in the auto business?
- Rajeev Jain:** Not entirely, partially yes that is one part. The second part again because of our conscious strategy to reduce the level of EBITDA in our business model we are focusing on growing more stable, but lower yielding assets like mortgages, loan against security and commercial businesses. So, as a result of both, so it is a “Richter effect” that what makes more money because of the external market is growing less and we on top of it are growing as part of strategy we want to reduce the EBITDA despite not having such experience in the consumer business. It is not that our experience is that higher EBITDA is leading to a higher risk, but consciously we want to create a more stable business and book and as a result, so it is a Richter effect that is playing now.
- Rajatdeep Anand:** You also report ROA and ROE on quarterly non-annualized basis, so ROA has already 0.8 if I the annualize it, it is 3.2, so broadly you have reached the level of profitability?
- Rajeev Jain:** As I mentioned earlier that again quarter one and quarter three are more like 3.7%, 3.8%, so structurally verses 3.6% or we exiting at 3.5% yes, but not 3.1%, 3.2%. We will be more like 3.4% to 3.5%, but we not at 3%. I think we will still take probably 15 to 20 months and by the time if the two-wheeler come back, by the time overall volume momentum comes back to be stronger, I think you may see probably take longer than to get 3%.
- Rajatdeep Anand:** Thank you for answering my questions.
- Moderator:** Thank you. The next question is from the line of Kuntal Shah from Axis Holdings. Please go ahead.
- Kuntal Shah:** Rajeev just a question since there are provisions and write back on annualized basis account to account, do you track on rolling basis absolute money you have written off or lost in the last five years or some in a rolling basis. Can you share the data basis?
- Rajeev Jain:** Yes of course.
- Kuntal Shah:** You do not have it right now?
- Rajeev Jain:** It get reported any which ways.
- Pankaj Thadani:** You will get it in the annual report. If you look at the schedule which has the schedule for loan loss and provisions, there if you look at the bad debts figure, which is the written off that will add up to the number you are looking for.
- Kuntal Shah:** No that is true, but write backs are not reflected?

Pankaj Thadani: Bad debt recoveries will be there in the income schedule those are also reflected separately.

Kuntal Shah: No, I am saying on quarterly basis or something you are not tracking these numbers?

Rajeev Jain: Kuntal, we of course run a life, the loan loss and provision number that you see is the net number.

Kuntal Shah: Will that give you a granularity of recovery, so just to give that there are delays but eventually the recoveries are also happening?

Rajeev Jain: We fortunately Kuntal do not have, given our gross NPA itself is 1.18%. We do not have a very large pool of assets, so we are not going to get "lotteries in future years", because we did not have any, we did not get drunk and got lost in the prior years. So, it is not a very large number, but we can share that offline with you and as Pankaj said it is available in the annual report both bad debts recovery and written off.

Kuntal Shah: Any comment on the RBI movement on credit cards and any other distribution products?

Rajeev Jain: The answer is no. We will now given that the bank license has not happened, we are going to take it up vigorously again with Reserve Bank and we are working on a payment strategy separately. There are few thoughts that we have in the direction given that the bank license has not happened.

Kuntal Shah: Thank you.

Moderator: Thank you. The next question is from the line of Amit Ganatra from Religare Invesco. Please go ahead.

Amit Ganatra: You have just briefly mentioned about asset debt financing in rural areas, so I just wanted to understand, you basically said that LCD or car, so it is like a personal loan against that asset or something like that?

Rajeev Jain: It is a loan against it. That is correct. You may have car and the current value of the car is Rs. 2 lakhs again that we may give you Rs. 140,000.

Amit Ganatra: But that is offered only in rural areas right now?

Rajeev Jain: Hypothetically it is.

Amit Ganatra: So that is part of rural lending product?

Rajeev Jain: We offer it only in rural markets.

Amit Ganatra: You are not bothered with end use?

Rajeev Jain: I am not bothered with?

Amit Ganatra: End use of that money.

Rajeev Jain: No, we are not bothered. Very similarly Amit even in the loan against property business, while we take the end use we do not monitor end use or the industry, takes the end use but does not monitor end use, anywhere wherever you are monetizing a particular set of assets, you identify the reason or the end use, but we do not monitor end use.

Amit Ganatra: I agree but this is something new right in the past?

Rajeev Jain: Refinancing is done very commonly. I mean refinance to either what happens that in refinancing many at times free assets against that the person may take money. It is a very normal industry practice. We have not created a new segment or a new loan.

Amit Ganatra: Refinancing against property and all hard collateral basically is very common, but this is something against a mobile basically collateral, because that is depreciable asset right that loses value over a period of time?

Rajeev Jain: That is why the margins on it are higher. It would be done at 70% LTV and the loans would only for two to three years. It is a 21 to 24 months loan on an average and the client is underrated.

Amit Ganatra: Do you mean to say that people your competitors in rural space would say that we are doing used vehicle financing?

Rajeev Jain: Used vehicle financing is a different. He is buying a used vehicle. In this it is monetizing, so used vehicle is equivalent to home loan. If I was to do the analogy and refinancing of existing assets like loan against property, so analogy is that actually.

Amit Ganatra: You are not doing loan against property in rural markets right now?

Rajeev Jain: These are only three products that we offer. We offer consumer durable loans, gold loans and asset backed refinance. These are the three branch based products that you offer in rural markets.

Amit Ganatra: Thank you.

Moderator: Thank you. The next question is from the line of Shayant Bhowmick from Pine Bridge Investments. Please go ahead.

- Shayant Bhowmick:** I just had one question. On the issue with NCD some new rules about redemption reserve, how do you see panning out?
- Pankaj Thadani:** Yesterday the operation gazette has been issued and they have withdrawn both the requirements for debenture redemption reserve, so that is no longer is required for private placement of debenture and second part where we have to keep 15% of the majorities in the next year in a separate bank account or earmarked securities (**Unclear**) that is always done away with because the reading of the circular says any company is required to create a debenture redemption reserve must do this. So if we do not need DRR, I do not need to keep the 15% either, okay.
- Shayant Bhowmick:** Thank you.
- Moderator:** Thank you. The next question is from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.
- Rahul Bhangadia:** Thank you for taking my question Sir. This is on the ROA bit you mentioned that with the change in mix ROAs are likely to be headed towards 3% over the next 18 to 24 months. Are we likely to see an increase in the leverage that the company is going to be comfortable with given that a lower ROA with this leverage is not going to give the desired ROE?
- Rajeev Jain:** The route however, on the other hand would be assignment of the lower margin assets. So, we are not changing our view on leverage and leverage remains six times maximum six- and-a-half times and if fundamentally lower margin assets cannot be assigned we will reduce the growth of the lower margin assets. But, we are structurally not prepared to go below 3% that too in a gradual manner over a period of time as we consciously change the mix without having to drastically change the outlook on the profit margin.
- Rahul Bhangadia:** So basically what is your suggesting as we move towards 3% ROA, the difference between the AUM and on the book number should go up?
- Rajeev Jain:** Yes, it will go up.
- Rahul Bhangadia:** That will go up right and that difference will basically be from the LAP side or is that the way to look at it?
- Rajeev Jain:** Priority would be home loans not priority, the first primary purpose is home loans and then followed by that are LAP. In the event that compromises overall ROA of company of the business.

- Rahul Bhangadia:** When you actually end up doing this assignment bit, what kind of spreads are you looking forward to in that sense?
- Rajeev Jain:** On assignment, we normally get a spread in the region of around 130 and 140-basis points.
- Rahul Bhangadia:** 120 and 130-basis points?
- Rajeev Jain:** Given that it is 10% of the balance sheet is what I am residually left with and 15% at times of the balance sheet at times I am residually left with and I have cross sell revenue pool that stays with me.
- Rahul Bhangadia:** This assignment bit is recognized one short upfront or it is recognized over the life of the loan assigned?
- Rajeev Jain:** Life of the loan.
- Rahul Bhangadia:** Life of the loan assigned. So, as of now the total AUM and on the books the difference is not huge, so that as you mentioned is it going to be something like 15% or something have you mentioned something like that?
- Rajeev Jain:** 1050 right now.
- Rahul Bhangadia:** So, 1000 over I think on book is 23,000, AUM is 24?
- Rajeev Jain:** The only small point that I am going to make, over the last two-and-a-half years we have assigned Rs. 2300 Crores, Rs. 2250 odd Crores. What is true of our balance sheet, so if you look at it our origination was Rs. 26,000 Crores and balance sheet is Rs. 24,000 Crores, so that remains true of what we are assigned as well longer than that, but not like while I am assigning the LAP loan or home loan, loan of 12 years, the average maturity of our home loan and LAP is less than 42 months. So, that is what is happening to that portfolio as well. Just as a separate point, I am going to make sure that you can reconcile the number. So now coming back to more immediate question, yes the gap of Rs. 1000 Crores, we should see 10% of the balance sheet at least coming from assignment.
- Rahul Bhangadia:** So, this is likely the 10% is the number that you are looking forward over the next two, three years?
- Rajeev Jain:** No, it will be faster than that. It will probably be in this year.
- Rahul Bhangadia:** In this year itself. So, may be 15% or steady state as you kind of settle this model down?
- Rajeev Jain:** That is correct.

- Rahul Bhangadia:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.
- Shyam Srinivasan:** Thank you for taking my question. My first question is on this 90 DPD I remember last quarter you had about 95%. Is it now 100% of the portfolio?
- Rajeev Jain:** It is still at 96%, 97% and only residual portfolio that is left, Shyam is the infrastructure portfolio, otherwise all our businesses moved to 90 days margin.
- Shyam Srinivasan:** Is there a plan to move that as well?
- Rajeev Jain:** Answer is yes, but you know the situation those who speak the truth, we should know the situation in the infrastructure space. This is hardly the time to take such an aggressive step especially large chunky transactions. However, we are committed to that. So in the auto-component business, which is wholesale business we have already moved, so all other business other than infrastructure business we have moved at an appropriate time we will move here as well.
- Shyam Srinivasan:** So, which means to the second question if you see the deployments that you have given in your press release, we have actually seen commercial now grow for first time seven to eight quarters now. Which part of that commercial is now growing?
- Rajeev Jain:** Only auto component financing.
- Shyam Srinivasan:** So the commercial equipment and the infra loans.
- Rajeev Jain:** No, no in Infra no disbursements happen, no sanctions also happened in the previous year, construction equipment we are doing something like Rs. 25 Crores in a month, so it is not meaningful at all probably in the quarter we would have Rs. 75, Rs. 80 Crores that is what you would have done.
- Shyam Srinivasan:** You are saying growth in this segment is still sometime away before?
- Rajeev Jain:** Yes, we do not think. There are two reasons. As a percentage of our balance sheet of the construction equipment may hope to grow, it may become meaningful only in FY 2016. Infra we just do not have confidence. We think we are sometime away I think by the time the wheels get lubricated and thinks start to move I think some big actions will be required.
- Shyam Srinivasan:** Thank you.

- Moderator:** Thank you. The next question is from the line of Umang Shah from CIMB. Please go ahead.
- Umang Shah:** Just a follow up question. The capital raising that we are planning to do over next 12 to 15 months would it be similar to I mean would it be the rights issue route that we have taken earlier?
- Rajeev Jain:** We have quite far away Umang at this point in time, so we do not have a view. At an appropriate we will take that call. I do not think we will be ready with that answer even prior to Q3.
- Umang Shah:** But the promoters would be maintaining their stakes?
- Rajeev Jain:** Yes, I would think so.
- Umang Shah:** Thanks.
- Rajeev Jain:** There are few businesses which can deliver we just still delivering 20% return on equity.
- Moderator:** Thank you. We have the next question from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.
- Pankaj Agarwal:** Just a few weeks back, the RBI removed prepayment penalty on all floating rate loans, so do you see any impact on your loan against property portfolio?
- Rajeev Jain:** We will benefit. We are facing at a structural level, whatever we do or whatever industry does 35% to 40% of that business is a balance transfer. Now, we never charged, but when our customer went to do balance transfer they were asked from 2% to various numbers like 5%. So, we are in a beneficial situation and because we took a strategic call, we do not want to charge whereas I think competitors, who and all the competitors, and I want to say this, all people did away with home loan, now I think it is a great move, it is a big move, all floating terms loans have now been, it will benefit us given the liability side let me say that as well, even on a wholesale borrowing side, it will help us at a point in time may have larger cost borrowings from a bank, I can wind them down just in case if I am unable to reprice them. So, we will benefit from it rather than get impacted and those who have been charging usurious charges ranging from 2% and 5% will have to rework their value proposition.
- Pankaj Agarwal:** So, you would benefit at the expenses of your competitors?
- Rajeev Jain:** Because we have suffered as well.

- Pankaj Agarwal:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.
- Rahul Bhangadia:** On the other income side, you had mentioned that you had some plans or you expected the non-balance sheet or non-fund kind of other income to pick up as you sell more cross sell more products, what is the plan or the expectation there or what is the result there?
- Rajeev Jain:** We continue to be pretty strong. We are the largest bank assurance partner for BAGIC today, we have the largest health insurance distribute of BAGIC today which are the group companies, despite being largest even absolute volumes of what we are doing very, very large, so that is one part. What you see as other income growth is also as I mentioned earlier we are maintaining between around 5% and 6% of the balance sheet in cash and cash equivalence, we earn interest on that, that goes and sits there. So, you are seeing a big jump also as a result of that and assignment fee, so last quarter whatever we have assigned as you can see in the investor deck we have assigned Rs. 350 odd Crores, so these are two big drivers.
- Rahul Bhangadia:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Vishal Gala from Vitor Advisory. Please go ahead.
- Vishal Gala:** Thank you very much. Sir, I have two questions. The first question is can you please tell me the spread and net interest margin in case of two-wheeler segment and my second question is can you please tell us the gross outlook for two-wheeler segment?
- Rajeev Jain:** What is the second question, sorry?
- Vishal Gala:** On the gross outlook for the two-wheeler segment?
- Rajeev Jain:** Quarter three, it degrew 3%, quarter four it degrew 20%. April has not necessarily been great any which ways I mean because the Auto Wheel Association publishes the numbers. So I think the outlook remains weak. That is your second question. First question clearly all consumer businesses in general, on average IRRs around 23%, 24% and if the cost of funds is 9.8 then the spread structurally is around 13.5% to 14%. Having said that the limited point is the cost of maintaining them or the cost of running those businesses remains high. So, the net ROAs can be in the region of around if you manage your credit well, if you manage your opex well can be determined by the efficiency and inefficiencies of the business model.

Vishal Gala: Just to confirm you have said that the growth outlook for two-wheeler segment looks pretty weak, right?

Rajeev Jain: Yes.

Vishal Gala: Thank you.

Moderator: Thank you. The next question is from the line of Parin Gala from Gandhi Securities. Please go ahead.

Parin Gala: My question is regarding the banking license. Even though we have not got at this time around, but RBI said that they are going to keep the on tap application, window open, so does the company have any intentions of again reapplying for the same?

Rajeev Jain: I think RBI will have to first clearly...

Parin Gala: Have we given up the whole idea or we are still interested basically that is the point?

Rajeev Jain: We remain interested, but we would only apply when we are clear about what RBI view is let me say that reasonably clearly.

Parin Gala: Because a couple of weeks was also Deputy Governor has given the statement wherein corporate entities and all those people also can now buy if they want to buy more than 5% in any bank or NBFC, they just mean permission, but they can do also, can do we have the plans of going inorganic also?

Rajeev Jain: Let that first come as notification that is first point. I think media picks up that input and then publishes it. I do not think it is notified so that is one point. Two, we remain interested in becoming a bank. Would we continue to grow and get to a Rs. 50000 to Rs. 75000 Crores business in the next five to seven years time yes, which means we will be systemically important yes, should we have bank yes. So we remain interested. I think RBI needs to determine whether it is interested in giving to corporate houses or not. If it is so, we would clearly be wanting to apply.

Parin Gala: Rajeev just to understand if you know the inciting thing what was the reason for just keeping your application just to two and why would the others are just rejected, just want to understand?

Rajeev Jain: You guys are in Mumbai. We are in Pune. We are out of the out of the noise circle. We do not know the reason.

Parin Gala: Thanks.

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

Kuntal Shah: This is the last question. What is the spread in margin on SME in the last quarter?

Rajeev Jain: In general, there are two classes of assets sitting there. There is unsecured assets and secured assets. Unsecured assets would be in the region of around 20% and secured assets would be in the region of around 80%. Blended basis on SME the margin would be around 5.5%, gross spread would be around 5.5%.

Kuntal Shah: Thanks.

Moderator: Thank you. As there are no further questions from the participant, I would now like to hand over the call to Mr. Karan Uberoi for his closing remarks. Over to you Sir!

Karan Uberoi: On 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.

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