"Bajaj Finance Limited Q4 FY22 Earnings Conference Call"

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I now hand the conference over to Mr. Subramanian Iyer from Morgan Stanley. Thank you and over to you, sir.

Subramanian Iyer: Thank you, Steven. Hello everyone. This is Subramanian Iyer from Morgan Stanley. Thank you very much for joining us for the Bajaj Finance Earnings Call to discuss the Q4 FY22 Results.

To discuss the results, I am very pleased to welcome Mr. Rajeev Jain – Managing Director, Mr. Sandeep Jain - Chief Financial Officer, and other senior members of the management team. We thank you for giving us the opportunity to host you.

I now invite Mr. Rajeev Jain to take us through the key financial highlights for the quarter, post which we will open the floor for Q&A. With that, over to you, Rajeev.

Rajeev Jain: Thank you Subu. Thank you, Morgan Stanley for hosting us for this evening. A very good evening to all of you. I realize it's late in the day. We also just finished our Board Meeting 10 minutes ago, but here we are with the quarter,

I'll refer to the investor section, the deck that we have uploaded on our website in the investor section, I quickly jump in the interest of time to panel 4 essentially the heading of that is "Quarter gone by".

Overall, I would say, last quarter we had said it was a good quarter and I was hoping that we will have a better quarter than the good quarter. And that's what we had said, excellent quarter for the company I would say Q4 that went by across whether it's balance sheet growth, portfolio quality and profitability. So, we're quite satisfied with the quarter that has gone by.

Fourth quarter is always very important to us because it fundamentally determines how, what is our entry run rate into the next fiscal is in general. The omnipresence agenda across geography, app, web platform which I'll cover in some time continues to accelerate in Q4 as well. Overall, I would say, entry run rate is very important from a business standpoint, we are quite excited about the FY23 prospects. If you get today level to view on the key metrics:

- The core AUM grew to 1,92,000 crores year-on-year growth of 26%, OPEX to NIM came in at 34.6% versus 34.5%. PAT came in at a record high of 2,420 crores, year-on-year growth of 80%.
- ROE came in at a 5.7% not annualized, but year ago it was 3.7%. On a full year basis, the ROE came in at 17.4%. The exit run rate for the last two quarters of the ROE has been 22.5%.
- Net NPA we are back to pre-COVID levels, marginally lower than pre-COVID. December 19 was the last quarter of what I would say pre-COVID quarter. Both growth NPA and Net NPA are back to pre-COVID levels. Net NPA came in at 68 bps, a year ago it was 75 bps.
- On a full year basis balance sheet has grown 26%, OPEX to NIM has come in at 34.6%. Full-year PAT growth has been 59% at 7,028 crores, full-year ROE 17.5% and net NPA is at 68 bps.

Some more color to the financials over to panel 5, I'll only cover high points:

- Point number three is relevant, 6.28 million loans versus 5.5 million loans that we did in Q4. Overall, we booked just a tad below 25 million loans in the year that went by.
- Overall, the fourth point is a new metric that we started to provide from this quarter onwards, the B2B consumption businesses. The divergence between volume growth and value growth has increased dramatically. I thought it was appropriate that we have to start to share this metric with you. The volume growth in the last quarter was 15%. The value growth is actually 27% in the B2B consumption businesses.
- Overall disbursements are 13,200 odd crores against 10,400 odd crores. We acquired 2.2 million customers, overall, in the customer franchise stood at 57.57 million, that's a 19% growth. Last year was the year that we acquired highest number of new customers to the franchise. We acquired 9 million customers, cross-sell franchise 32.77 million year-on-year.
- Franchise grew 19%, but cross-sell franchise grew 32%, bodes well for the new acquisition that we'll be putting on board in the last 7-8 quarters. We remain comfortable adding it to 9 million new customers to the franchise in FY23 as well.
- We added 81 new locations, total locations presence are now 3,504 locations and 133,000 distribution points.

Competitive intensity I talked about in the last quarter remained elevated. We, as I've said, we'd rather focus on margin than to focus on balance sheet growth. If I have to trade-off between the two, clearly, we will choose margin. Margin we continue to protect, in on aggregate basis it reflected in AUM growth was 26% and NIM growth actually came in at 30%. So, we continue to predict margin in Q4 that went by as well. Cost of funds, continue to help came in at 6.71%. Liquidity buffer we are working hard to dial it down, as of April 30th it would have dialed down to this number because the Q4 number is a little artificially suppressed by 3000 odd crores. It was because of the last tranche of IPO financing that we did, which was quarter crossing. So, it would have looked like 13,000 crores in absence of that number, but it would have dialed down to sub 10,000 crores as we close April. Overall, one of the large drags in the P&L has also gone away from what was legacy of COVID over the last two years.

On over to panel 6:

Deposits book crossed 30,800 crores. Consolidated mix is at 19% OPEX to NIM came in at 34.6%.

As we said in Q3, we continue to invest in teams and technology for business transformation. We are now reasonably clear that given and we so far talked about geo-expansion and app platform, and what we're going to share with you today next few slides are we're investing very deep in building a web platform as well for the last eight, nine months, given the deep expanse, deep investments in all these three areas, which we think are clearly needed for what we think is a full-fledged omnipresent financial services.

We think OPEX to NIM will remain elevated for FY23 as well is really one of the views that we have, and I thought it's important we articulate that.

Loan losses and provisions came in at 702 crores, on a run rate basis they were at 602 crores. We took 100 crores charge on one large B2B commercial account, which went into NPA across the banking system so as the case with us as well. We took an additional charge in their account of it's 383 crores account we have now provided 200 crores. Overall loan loss to average receivables in the quarter was 40 bps, so that technically gives us a run rate of 152 bps. As I said, the 702 crores have a one-timer of 100 crores so probably gives us a run rate of 145-150 bps as we get into FY23. On a quarterly basis, this metric is now better than pre-COVID levels at this point in time.

We continue to carry management overlay, we have not diluted overlay, we had management overlay 1052 crores and in Q3 it has come in at 1060 crores. We continue to look for the watch out for fourth wave and as a result have chosen not to dilute any management overlay and we are watching for any signs of, if the next six months are fine, then we will slowly start to work towards releasing part of this management overlay.

Portfolio metrics overall and debt management efficiencies continue to improve, they improved further in Q4 versus Q3 and are clearly on new acquisition management of the portfolio that management efficiencies are better than pre-COVID level across most businesses, not all but most I would say. GNPA and NNPA I've talked about it came in at 160 and 68 bps. They're better than pre-COVID. Stage-2, on absolute basis came down by 1,500 crores between Q3 and Q4. So even an on absolute basis, the numbers are, leaving aside as the percentages came down. Stage 3 came down, remained flat. This is mainly on account of the 383 crores account that actually slipped in. Adjusted for that, it came down by 383-400 odd crores. Despite such a large account flowing in, the overall stage 3 assets remained flat. The portfolio composition across stage 1, stage 2, stage 3 at a mixed level is now better than pre-COVID.

Very quickly, just from a management assurance standpoint, I'm on panel number 17, portfolio quality, 10 portfolios in our management assessment are green and 1 is yellow, which is still 2-wheeler and 3-wheeler, but it has moved from red to yellow, remains so for the next 4-5 months should be somewhere in green. We are hoping by end of second quarter.

Consolidated profits, I have already talked about, grew 80%. Capital adequacy remains strong at 27.22%. Tier-1 capital was just a tad below 25% at 24.75%. The Board of Directors of the company given the strong performance of the company and given that the aggregate Balance Sheet grew 39,000 odd crores and we still did not dilute capital adequacy, have recommended a dividend of 20/- rupees per equity share which is a 1000% dividend. This will amount to the dividend policy of the company says that we can distribute dividend between 15 and 25%. This number comes to subject to shareholders approval to 19.2%.

RBI allowed a deferment, as we've transitioned, we have chosen to not take it. It's a way of life for us now.

BHFL overall AUM grew well, from a profit standpoint they came in soft. The AUM grew by 37%, profits for the quarter grew by 11%, mainly caused by OPEX in the last two quarters, we have taken a position to significantly accelerate investments in growing distribution. So, it's a transient OPEX phase. We have also infused 2,500 crores of additional capital. It's the right time for them to make decisions to invest for the next level of growth of the company. On 7th of April, BFL infused 2,500 crores of capital in BHFL. BHFL GNPA and NNPA performance continue to remain quite strong, amongst the lowest in the industry, came in at 31 bps and 14 bps. I would say it's a creditable performance on credit costs given the environment. As I said, delivered 11% growth, 298 crores for the quarter and capital adequacy came in at 19.72%, but would have moved up further to close to 27% odd as a result of intrusion that we've actually done.

Bajaj Financial Security will continue to systematically and gradually continue to build the company, focused on quality of franchise rather than quantity of franchise added 62,000 customers. Activation rates of this customer franchise is now anywhere between 60-day activation on broking accounts is between 30% to 37% is really where the number is. That's our focus rather than adding new customers and having inactive customers, we've chosen to focus on activation rates, which are 60-day activation. Margin trade financing, which we think is the future of the business, the balance sheet grew to 720 crores, and we think will be an important dimension to build a large broking business from our perspective, net profit came in at 9 crores. That's really the key financial indicators overall, quite satisfied with the quarter, all metrics are looking good and as a result, we are quite excited about the prospects of FY23.

Now let me just cover next five minutes on panel number 10 on Omnipresence strategy:

You would notice that we have essentially transitioned from using the word business transformation to articulating it as the Omnipresence strategy. That's really how as our audited accounts get released and MDNA and information infrastructure appears. This is the frame of

Omnipresence strategy that we intend to continue to work on over a period of next three to five years. Let me just give you some texture on that. Just from a forward-looking standpoint:

- First point is that Omnipresence strategy will expand, I am on panel 10 from geography and digital app platform. These are the two pillars so far of the Omnipresence strategy to also include creating a digital web platform. So, these are the three pillars.
- We also think in the future, there will be a social and virtual. Eventually there may be five pillars, but so far, we are working on building until September 20 on building 2 pillars which are geography and digital app platform. As digital app platform takes a life of its own. We decided that it's time to investing in the third pillar, which is the digital web platform. Fundamentally between the app platform and digital web platform, the digital web platform will get delivered in two phases between September and March, September 22 and March 23. That's one part of the conversation. It intends to essentially; you know web remains the largest driver of traffic. Traffic, volumes, and service to customers in a digital space. It's bigger, it remains bigger than app. App comes with many benefits also, comes with a set of limitations. If you want to be a digital enterprise, we are very clear that we got to play in both these spaces, equally large, equally strong and equally strategic. That's really how we've taken a decision to build a web platform, which will fundamentally provide a platform agnostic experience. You can stop in app and go to web. And you'll start from there and you can go to web stop from there and start from app. At a design level that's really where we are in the last eight, nine months, we've been investing in building the domain talent and technology to build a large digital web platform. We've added 250 odd new people in this space to build this out. We will, as I said, completely transform the web experience enabled by common technology infrastructure layer between web and app to what I would say to the reasonable extent possible I would say is really where the design thought process is. So, we are taking a customer in view rather than a company out view.
- The UI/UX will be identical to digital app platform for ease of navigation and customer experience. It will look like app, but it would be a web platform first phase by October and second phase by March 23. We expect by March 23, just on staying with the conversation, even on the digital app platform, we would have delivered phase two, which I articulated in the last quarter. We would have, I would say across all these three areas by March 23, we would have completed our transformation journey that we fundamentally embarked on in August 2020. It would have been long two and a half years of running the company and building an enterprise for the future I think we have last 11 months to go as we complete the transformation process in our assessment.

Jumping to the two things that are going concern dimensions of our growing concern pieces of our Omnipresence strategy, one being geography, we added 81 new locations. We continue to invest in UP, Bihar and Northeastern states, as we work on Omnipresence geography infrastructure.

Next panel, which is on panel 11, the insurance marketplace went live in March 22. It's a large capability across 9 insurance companies, across 8 insurance products, 345 pocket insurance products, 4 motor insurance products and 9 health insurance products allow customers to compare review buy policies. Service section includes policy documents, claims request and so on and so forth. It's a reasonably large asset that we've been working on creating over the last 12 months as part of our business transformation strategy, which went live. The investments marketplace in partnership with the Bajaj Finserv Direct also went live in February in offering various mutual fund and fixed deposit options to customers. Allows customers to explore, invest, seamless onboarding for mutual fund investors, easy online KYC process and so on calculators and portfolio view. These are two large marketplaces that have been a work in progress for the last 14 odd months, phase one of these assets have gone live and we have full-fledged plans to, like we talked about our platform, grow them both in terms of size and depth as we execute through the year and FY23.

The Rewards Management System critical to the entire digital journeys, which is RMS also went live in March 22. It will drive higher customer engagement on the app, will deliver much higher conversion rates, which is its purpose. It delivers to us as a company, the ability to offer reward points, cash back into wallet and vouchers for online and offline purchases. I think it delivers a reasonably robust infrastructure for us to be able to engage customers across products, services, payment options, and so on and so forth. So, that also went live. Overall, in Q4 on the app platform, which went live as phase one, we added 2.6 million net users and as against 3.6 million in Q4. Due to seasonality normally, B2B point of sale remains our largest new customer gatherer. So, due to seasonality you see that number dropped from 3.6 to 2.6, but in Q1, you'll see that number go up in Q2 you'll see it go down, in Q3 you’ll see it go up and Q4 you'll see it go down. Overall, in FY23, we intend to add 14 to 16 million net new users. That's really the run rate that we are working with to bring between 14 and 16 million new users to the franchise, taking us hopefully to 30 to 35 million users should be net users should be on the app platform given that we are at 19 million active users at this point in time. If we add between 14 and 16 million, we should have been 30-35 million net active users on the platform by as we exit March 23, I had talked about it and we put it in public domain for investors to understand that we had planned that we would deliver as part of phase 2, 17 new features and components. The final addition as we completed our planning process is essentially that increased sprints, we will deliver 62 new features and components as part of the design as we deliver phase 3. The timelines are not changing, they may shift by a month or so here and there that really doesn't matter from a direction standpoint. But I think by the time we finish phase 2, we would have a reasonably robust app platform infrastructure, both for NTB and for ETB customers.

I'll just take two more minutes then, I am done. Just on some statistical data in terms of how the platform is helping us engage or acquire new customers. We acquired 455,000 new EMI card customers digitally in the quarter that went by. That itself is now 1.8 million that delivered

234,000 new loans in Q4 alone. Overall EMI store visits, which is the third flagship marketplace that we have. The flagship marketplace is B2B marketplace followed by, as I talked about insurance marketplace followed by investments marketplace. Eventually our goal is that as the three marketplaces become large and for consumers to compare, review, purchase products, I think should be generating 200-300 million visits each in a year as we build them out. I think that's really what the thought process is in the quarter that went by. It had 37 million visits. We are investing deep, even in EMI store we are putting in place a plan to build grounds up EMI store infrastructure, which should be going live sometime by June 23. The reason I'm making the point to give you the texture on when I say OPEX to NIM will remain elevated because we continuing to invest, investing for the future, investing for engaging customers, investing for mobilizing and creating hopefully exceptional properties for consumers to do business with us. In the digital app platform delivered 1800 crores of personal loans in the quarter that went by and 29,000 credit cards. Debt management transactions on the app platform came in at tad below 400,000 people paid using those who have defaulted, paid using the app platform. We're quite encouraged by the level of momentum of the app platform for what I would call accidental defaulters to use the platform to pay us. Flexi loan transactions, stood at 780,000. Again, a high transacting product, beginning to be relevant from an app platform standpoint is coming in, 18 engagement partners we added on the app platform and totally now we have 48 odd engagement partners. Payments we've talked about it in the last one year. Now numbers have started come in. First of all, the QR based P2M acquiring business went live it's our first acquiring business, one into production, the distribution expansion of that, of the QR based P2M is now underway. So, we'll build that out.

We have aggressive plans for that in FY23. We're continuing to significantly accelerate our investments in building a full-service payments business. Nitish Asthana who's joined us as a President payment, he came on board in 1st of March, he's driving the entire initiative, building a full-service payments business. He has 15-18 years of experience in just in the payment space. We are giving him the platform to build out a large credible, relevant payments business over the next three to five years horizon. We are setting aside a reasonable amount of money. We are very clear. We will do full-service payments business across B2B, EDC terminals, the payment gateway business, we'll do it either on our own or through strategic partnerships. As I said, we've set aside deep investments, both in CAPEX and in OPEX to grow the payments business as we journey through FY23.

Just to the last point on this 1.7 million wallets got added against 2.5 million as I said this again, little seasonal, overall, 6.5 million customers in wallet, the rewards management system will significantly accelerate rewards wallet journey. As I said whether in terms of rewards, in terms of coins or in terms of cash back, all our engagement with our clients will now go through rewards management. It will create significant transparency and will reduce any customer related issues. I think transparency levels and customer service-related issues will fundamentally I could argue with you will get eliminated as a result of our entire rewards management folding into the payment strategy and we are very clear we would like to engage more with clients rather than have noise from a customer standpoint.

We started our UPI journey, we added 1.1 million UPI handles against 5,50,000. These numbers will multiply significantly as we move along. 1.4 billion bill payment transactions also happened, 85% of them are actually our customers. So, we're working on our franchise. The acquiring business will work on our distribution ecosystem, ring fencing, harnessing, mining, whether our customer franchise or our customer or our distribution engine is really where the focus is of the payments business, and we'll build that out. Naturally on the quarter I've spoken longer than I normally do, but there were lots of things to cover. We can move over to Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: Three questions, firstly in terms of the entire web platform. Maybe as a part of one of the pillars was that earlier articulated and what are the kinds of maybe the benefits vis-a-vis the cost, if we have to see compared to that of the app platform. Will this involve more of a cost compared to that of app and vis-à-vis that what would be the benefits which we expect to accrue? So that's the first question. Second, in terms of the master deductions on credit card, what is your assessment of the impact from your end? And third question is on consumer durables. When you see the rise in the delinquency market, but still it's not been there in yellow or so. So, so now what could be the reason for the rise and how do you see that going forward? Thank you.

Rajeev Jain: So, as I said Kunal that it's the largest driver of traffic. I think that's a principle point we need to remember if we do want to build someday a hundred million customer franchise from 57,000 million customer franchise, we think web is as critical to the frame. App serves its own as I said, purpose, its engagement levels are better, so it's not a trade off or it's not either/or we got to do both. Now that's a day at a 30,000-feed level. I'll request Anurag and Rakesh to probably further expand on it, either of them.

Management: It's not a new strategy for us, a web platform. We are basically today over the investments for the last 10 years, 20 million people come onto our web platform today out of which huge investments in SU already done 10.5 million come on that one. What we are saying is this is more or less a web platform 2.0 for us as a follow through of the app which we have already launched. What we want to do as Rajeev has already highlighted to deliver similar customer experience consistent. So that he can switch between app and web that's number one. So, it's not a cost angle. It is more of a common customer experience and consistency in experience because the choice that consumer can make on how he wants to interact with us, how he wants to consume our services. Lastly, the explore flame of web is immensely huge. That's the multiplier benefit of being on the web. That's the reason we are just building our web platform.

Management: The cost of web platform will be significantly less than building the app platform as Rajeev had articulated in the transformation section, where in the infrastructure layer will be common between the app and the web. We'll be utilizing the common layer to address the web transactions also. The cost will be less than the development of the app.

Rajeev Jain: Just to the last point Kunal, on that point 1, that technically it was run by a marketing function. It will be run as a business asset. The way I see, I keep saying within the company that the largest branch is, let's say app, the second largest branch will be web and then we will have 3,504 more branches. So, that's really how I see the business to be, that the largest branch is app, it can become web tomorrow. Because as we said, the reach, you don't have to login. You can explore the products and the services of the company without having to login or download. So, I think it will offer an integrated experience, a seamless experience to customer, as Rakesh said, and it would complete our omni presence strategy. So clearly that's level one.

Credit cards, it is a master circular that's come in. We are studying the master circular at this point in time and fundamentally we will go by what the circular has essentially articulated. Don't have a point of view on good or bad, positive or negative. It's as directed by RBI, we got to all follow whatever state.

Point number three, consumer durable, we have captured there, bottom. The large B2B account is sitting there, Kunal. And if you go to that panel, you will fundamentally see that, yes. Otherwise, it's at the same levels as it was in Q3, marginally better, I think 3-4 basis points. It's 99.6 versus 99.58. I had told the team to asterisk it. They have not asterisked it probably. So that's all, nothing else.

Just a last point, CD business remains at an ever-best performance in terms of through the door.

Moderator: The next question is from the line of Abhishek Murarka from HSBC. Please go ahead.

Abhishek Murarka: First of all, congratulations for the year. I think great performance given the challenges. I have two questions. The first is on SME. I believe a couple of quarters back you had called out some pricing pressure and just wanted to get an update. How is it now? A lot of large banks are growing at 8% to 10% Q-o-Q. So, what do you see in the market? The second one is basically on your net interest margin outlook, especially now that your liquidity buffer is normalized, and potentially there could be yield pressure on some of the businesses. How do you see your NIM going forward and what range of cost to income should one expect by FY23 given on the investments that are in the pipeline? So, those were my questions.

Rajeev Jain: So, the SME business, we have now done that so 14 years we have seen lots of people get excited by the gross NIM that comes with the business and eventually when the losses appear, step out of the business. And we have seen that play many times other than I would say one large player nobody remains consistently, and you can do channel check with dealers with DSS to know that very clearly. So, it's one more season where we are seeing a lot of people get into the business and excited by the gross margin that it brings to the table and hopefully learn some lessons as they realize that the net margin is eventually more relevant than the gross margin. So, that's point number one.

Point number two, we have been creating significant granularity in the SME business over the last 14 years. We do this business in over 1500 locations. So, gives us the ability to diversify, one. Maintain margin profile but needs significant skill. So, you hurry up too quickly in this business, you get hurt. You do it too slowly, the cost is huge. So, that is really what our view on the whole MSME business is and it has not changed. We believe that after our B2B business, it is one of the biggest skills we have created over the last 15 years in terms of distinctiveness and differentiation.

NIMs, overall at a product mix is defined by 2-3 things. Overall pricing, number one, as I have said, we do not want to dilute pricing because we don't know if there will be more waves. Point number two, product mix is a driver of NIMs, cost of funds is a driver of NIM. We don't want to dilute margin, that's point number one. As I said, I would rather dilute growth than to dilute margin. Point number two, product mix, you should estimate that a product mix would continue to remain steady, largely with one or two percentage points here and there probably a 100 basis points given the size of our balance sheet. Point number three, cost of funds, I have always said our liability balance sheet is longer than our asset balance sheet. That's been true for a long-long time. At least in the near future, which is I would say most of the year we should be fine, and we will go by the year as the year plays along. For now, we are comfortably placed, I would say for the next 2/3 quarters, and we will play along from there.

OPEX to NIM, I have said it will remain elevated. Elevated being defined as it's a metric that we have also had to circle up in our head. Let me be honest with you. I have said this to some investors that eventually it will lead to better OPEX to NIM ratios, eventually. Now that eventually in long-term we are all there. I think let's talk FY23 at this point in time given the solid momentum we have on most metrics, the stands by us as a company is to invest. We think it's the moment for us to we have been investing in the last 18 months, we should invest in FY23 as well so that we can create a completely transformed organization which is fully digital by end of FY23. So, it will remain elevated. Now elevated, so that your understanding of that is not different from mine and from somebody else, it should remain within this corridor of on a quarter odd basis it may go up so it will remain between 34.5% and 35.5% is really how we see FY23 to play out. Should start to go down. But as I was saying right now, Abhishek, earlier as well, we are looking at building 2.0 of marketplace. That's a large investment commitment. We are continuing to invest in geographies because we think it's a huge opportunity in some of the north and central states in India. We are continuing to invest in app platform. While delivering, I must say that this OPEX to NIM, please keep it in the context that we don't foresee the long-term guidance metrics of profitability to get compromised in any given manner. So, a higher OPEX to NIM should not in any way be construed as leading to a lower ROE or a lower profit growth. So, there is no direct correlation at least for FY23 and that's why we as management believe from a long-term standpoint it is the rightful moment to invest that if the ROE is not getting compromised, if growth momentum is strong, that's the moment to invest rather than investing if you are going through a bad time. So, we are looking forward to FY23 and given how the metrics are looking are choosing to invest without compromising on, as I said, ROA/ROE in any given manner.

Moderator: The next question is from the line of from Apurva Deshmukh from CRISIL Limited. Please go ahead.

Apurva Deshmukh: My first question is, I would like to understand what would be the percentage of consumer durable and personal loan individually in your standalone AUM of Bajaj Finance? And what is your market share in these two segments among the NBFCs?

Rajeev Jain: If you go to panel 47 of the balance sheet, you will fundamentally see that of the balance sheet, 15,000 crores of the 146,000 crores of standalone balance sheet is in, so add to 15,000, 14,977 and 4,129. That is close to 20,000 crores in terms of balance sheet of the consumer durable financing. It, of course, has many other businesses sitting there in that, there is a consumer electronics, there's furniture, there is e-com financing and so on and so forth. On an aggregate basis it is 10% of the balance sheet.

Apurva Deshmukh: Similarly, about personal loans, individually?

Rajeev Jain: Personal loans, just staying with the same panel, you should look at the consumer B2C business and the rural B2C business. If you see 37 and 15, that's 53, you should knock off from that let's say 2000 odd crores or 2200 odd crores of gold loans to it would be (+) (-) 50,000 odd crores.

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

Nischint Chawathe: Could you spell out or give some guidance on what could be the quantum of rewards that you could pay out next year to it in terms of its impact on P&L?

Rajeev Jain: Nischint, as I said, there's no need for a specific number, but sales promotion continues to be discretionary play. If you are doing well as a company and we want to engage more, we would accelerate. If we are not meeting our goals, then we would decelerate. For any company it remains a discretionary number. We have a plan for the year, as I said, we would put all our rewards which we did even earlier through various means is now going to go through a rewards management system. For last year I don't have the number in hand and last two years have been soft because we were given the kind of charge off that we were taking from a loan loss and provision standpoint. But I would say if we take 2019-2020, that number would have been around 300 odd crores, maybe a little more.

Nischint Chawathe: Will that kind of change significantly?

Rajeev Jain: See, me saying the number is not correct so maybe Sandeep can correct the number.

Management: Sir, the number was in the range of 180 to 200 crores.

Rajeev Jain: 200 crores is the number.

Nischint Chawathe: And would you just scale up with volume for the future year, or first should the percentage go up to when the fact that you get into a more competitive business?

Rajeev Jain: So, two parts to this, Nischint. So, this was prior to payments. This was to stimulate our customers to do more business with us. The payments point that I made earlier is over and above. So, it's an addition. So, let's say just on a customer franchise basis if the number of 200 goes to 300, let's say for hypothetical sake, it'll be 300 crores, that would go through the rewards management frame. And in addition, whatever we have given to the payments as new will be additional. However, as I said earlier Nischint, it depends on how we are doing fundamentally is determined by what's our stand in terms of management on customer franchise origination and management of P&L, it is discretionary.

Nischint Chawathe: The second question is actually on the app developed by Bajaj Finserv. We just trying to understand that do other lenders on that platform get access to your EMI store?

Rajeev Jain: No. That company is on arm’s length basis. It's got nothing to do with us. They have two roles that they play. They build marketplaces for us. They have built the marketplaces on an arm’s length basis as a technology vendor. They also do distribution of products for us. That's all. What they do is independent to them.

Nischint Chawathe: But the EMI store is also visible on the platform?

Rajeev Jain: Like any digital distributor would run, they run an algo or an engine which determines where based on the segmentation of a customer, they may prop us up, prop somebody else up or prop up a new age lender. It depends on how deeply integrated their lending distribution partner with them is and it is organized that way to the best of my understanding.

Nischint Chawathe: The entire EMI store is developed by them, what I can see on their app.

Rajeev Jain: Yes, as a technology partner, yes. What is also happening is that we just held it back, we were to go live on 15th of April, we have held it back because we are in season. From 1st of July onwards we are creating a new brand called Bajaj Mall and from 1st of July even these two assets will become completely distinct from each other. So actually, it’s ready to go into production. We have held it back because we are in season time.

Moderator: The next question is from the line of Sameer Bhise from JM Financial. Please go ahead.

Sameer Bhise: Just wanted to get a sense on how are you thinking about the payments business from a scale up perspective? Obviously, we have initial head start given the strong physical presence, but in the digital world any sense there. Secondly would be the whole markets versus Bajaj Finance app, would that also entail creation of two parallel branding mechanisms there?

Rajeev Jain: So, two parts, as I said earlier, Sameer that our focus of the payments business, if we ever wanted to make it viable is to essentially focus on our franchise. Franchise being defined as customer franchise for payments and their wallet and acquiring franchise for our B2B frame. These are the two pillars on which it will stand. The third franchise being to on roll or onboard millions of merchants. If fundamentally companies have dedicated staff here because we are sitting in those marketplaces with people in the stores and they have intermittent times during the day when they are busy and rest, they are not. We have something called mobile salespeople or mobile sales staff who do that as well. These are the three pillars fundamentally on which we are looking at building a payment business. So, these are the three pillars, view with a 3-to-5-year view. We are very clear that we need a large payments presence to build out the digital strategy of both app and web for us as a company. These are the three head starts we have, and we are babes in the woods. We are just starting the business. We don't want to put Nitesh who is here on the call under pressure, and we build businesses with a long-term view and that's a mandate to him and that's a mandate we have taken that it's a long view. Markets, essentially as I said earlier to Nischint, it's independent and they run their own life, we run our own. So, there's nothing else to comment on that. I think I have answered this question 2-3 times in the last 3-4 quarters, and nothing has changed other than, as Rakesh said, we are launching Bajaj Mall on 1st of July. So, that will create further differentiation and distinction from a distinctiveness standpoint.

Moderator: The next question is from the line of Kuntal Shah from Oaklane Capital. Please go ahead.

Kuntal Shah: My first question is, you are building all the buildings, Lego blocks of the digital payment systems, RMS systems, pay RMs, is there a plan to monetize it by a third-party sale to of APIs and open architecture to parties in next say couple of years, because it doesn't make sense for everybody to build everything. If somebody has built at scale, then can it be levered by others to deliver service to your customers and their customers? And second question is, you mentioned about credit card, but now then the norms are out, what's your view on the going ahead because it seems an RBI is aligned with the view.

Rajeev Jain: I think the purpose of building the entire technology stack is for us to monetize our franchise. I think that's our objective. We continue to originate 8-9 million new customers. If we stayed with the same run rate, we would hopefully have 90 to 100 million customers in the next 4 to 5 years. That's a very-very large franchise. Our activity rates, activation rates, share of wallet remains very low with these clients. I think that no monetization can ever make up for what we can do with our franchise. And the skills as part of understanding credit, dispensing credit, and managing risk that comes with it. So, I think that's first part. But there's never say never. Maybe who knows 5 years down the line we think it's something to do, but at least it is not in the next 5 years. So, that's one part. Two, as I said earlier, we are studying the credit card guidelines, what it means, we will seek some clarifications and then we will determine next steps.

Moderator: The next question is from the line of Parag Jariwala from White Oak India. Please go ahead.

Parag Jariwala: Just one question in terms of, we have seen the HDFC bank merger, as thought process on converting into a bank does it kind of impact us anyway because overall there is a general belief now in the market that over a period RBI wants larger NBFCs to convert into a bank. So, any thoughts on that line? Have we tried to prepone or go fast towards bank conversion? That's my question.

Rajeev Jain: It is a fair question, given it's a tropical question. If ever this was to happen, there will be three stakeholders involved in this conversation. I only represent one which is management. Our management view the second will be a shareholder, not in that order necessarily, third will be regulator. Maybe the first will be regulator, second will be shareholders, and third will be management. As management, our view at this point in time from a long-range standpoint is that our focus is on building a payments and financial services business. We are satisfied with the strategic frame that we have created and don't have a view as management, at least from a next three-year standpoint on bank. So, as management, let me make my stand clear. On whatever I understand from shareholders I think Sanjeev is in public domain talking about what he thinks how financial services is changing for the future. He is in fact, going one step forward and talking about decentralized finance as a frame. So, if I read between lines, that's not what his view also seems to be at this point in time. So, we will play along. Our view at this point in time in very uncluttered manner and very clearly is that we are focused on building from a financial services business to a payments and financial services business with hopefully a 100 million franchise in the next five years. And companies are built for long periods, in the long term given our ambition, could we be one? Probably yes. Long-term is long-term. I mean, so we will play along. It's not on the horizon for the next 2 to 3 years.

Parag Jariwala: Rajeev, the point is I as a shareholder also believe it's great to be a fair maintained financial services, but as you rightly said from a regulatory side with the pressure, we can't do much about it, right?

Rajeev Jain: RBI has made its stance clear, in public domain with a new scale base regulation and has very clearly articulated that if you are an upper layer company about your company, you have a band like regulation, you deem it appropriate to be like bank like regulation and be an on bank, we are guest. At this point in time, we are reading it exactly the way it is and if I take those regulations our stand is to remain an on bank for next 2 to 3 years standpoint, meet all the requirements of bank like regulation. We don't believe it in any manner dilutes our business model. We think actually it strengthens it. We have been working on it over the last 18-24 months. We have always been very clear that arbitrage does not create business models, at least long-term business models. Over the last 15 years, we will complete 15 years of transformation as we have started this year. I think we never believed it in arbitrage. And I think it's helped us in good stead. We used to be 180 days past due, we were allowed as NPA. We saw that go to 150, 120, 90, you never saw any impact. You saw us transition to DPD and you never saw any impact on us. Because we believe the color of money is green, regulations eventually only serve a particular purpose. If we are building a long-term business, we must focus on long-term and what is right for a bank to do must be right for us to do.

Moderator: Ladies and gentlemen, due to time constraint we take one last question from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Just two very simple questions. Rajeev, I think you used to say that you had about 70% market share in the subvention pool. What would be your best estimate now on this subvention pool, has it gone past pre-COVID levels and where has this 70% number moved?

Rajeev Jain: So, it remains, I mean, we track it every month, it has remained between 68% and 70% for the consumer electronics business. It's remained between 57% to 59% in the digital business. These are two large categories. And in the digital space, this number used to be 51%-52%. So, it's obviously moved up. In the CV space, it remains steady between 68% and 70%. I think that's really the number I would say. It's closely monitored and tracked by us because we are dominant in this space, and we would like to ensure we protect our market share in this space.

Abhijit Tibrewal: One last question from my end, Rajeev. I think in one of your slides, you have articulated that in the last quarter, you had identified some 17 features and components as part of your phase two and its now kind of gone up to 62 if I am not wrong. So, have you identified some new use cases on the payment side? That's the first question. And a couple of times during the call, you suggested that you are building the payments business with a slightly longer 3-to-5-year kind of a view. So, do you think for the next two years the payments business is not going to be accretive to your bottom line?

Rajeev Jain: It will never be accretive. And Nitesh may not fully agree given what would go into engagement versus what let's say tomorrow the infrastructure business or EDC business they make, will never add up. And we invested in the business or decided to venture into the business, knowing fully well that. Someday he can surprise us and build out, make the maths work, but it looks quite hard to make up at least in the medium term. There's no concept of long-term, looks hard to make up in the medium term. So, purely the goal is to create significantly higher engagement. That's our purpose both on app and web. I think that's the mandate. We want millions of customers use the platform. We want them to remain engaged. We bring an entire whole host of financial services, including three large marketplaces to these consumers. We have 48 partners. That by FY23 will actually go to 100 engagement partners. So, 48 engagement partners just by plan is going to 100 engagement partners. Three large marketplaces, entire bouquet of retail financial services products, payment options, and 100 engagement partners. That's a very large ecosystem. We, use all this to engage clients. That's really the purpose and use the payments tool for 100 engagement partners or marketplaces to do transaction. So, I think that's really the goal of the payments business at a design level. The 62 new features fundamentally when we articulated it, we were in the middle of what I would call our long-range planning process. By the time we completed the planning process, you know, from project the app platform has now transitioned to a business. The company runs metrics on how many customer downloads it had yesterday. It's a whole host of hard metrics that Kurush Irani had talked about 2 or 3 quarters ago. We still don't publish them. We are just waiting for some level of maturity before we start to publish them. From a project it is a transition to a business. In the current year, the goal of the company is to mobilize the 32,000 people of the company on speaking the language, managing the asset, generating business through the asset, generating services through the assets. So, we were in the middle of a planning process. By the time we completed the planning process and just in the interest of transparency I thought we will outline that what the final feature output would actually look like and over the next 8 months the idea is to just deliver them in 3 sprints. And we are learning as we build it out. So, you will see significant changes appear or enhancements appear in as phase two starts to go by. End of phase two would mean we are satisfied with what we thought if you were a new customer, he or she would be able to buy products and so on and so forth. I think that's really what we are seeking from a satisfaction standpoint. I just wanted to make one last point. I think it's an important point, which I should have mentioned earlier. I have had 2-3 questions that I got asked on credit card. We work on credit card with two leading partners, being RBL Bank and DBS. We have large franchise. We have deep relationships with them. We continue to remain committed to, we don't do partnerships for short-term where we already have a four-year partnership with RBL. We have just started to dispense new cards with DBS. It's taken us 12 months to build out the partnership. We are very clear, we build partnerships for long-term, and we remain committed to these partnerships for the long-term. Whether we can do our business tomorrow, cannot do our business tomorrow, our commitment to these partnerships from growth and commitment remains very strongly rooted. I thought I'll just make that point. I should have made it while responding to one of the points on credit card, but I thought I will make the point. I think that brings us to the end. Subu?

Moderator: Thank you. I now hand the conference over to Mr. Subramanian Iyer for closing comments. Over to you, sir.

Subramanian Iyer: Thanks a lot Rajeev, Sandeep and the Bajaj Finance team for giving us the opportunity to host you. Thanks everyone else for joining. This concludes the call for today. Over to you, Steven.

Moderator: Thank you. Members of the management, any closing comments before we disconnect.

Rajeev Jain: Thank you and goodnight.

Moderator: Thank you. Ladies and gentlemen, on behalf of Morgan Stanley, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.