



"Bajaj Finance Q2FY14 Results Conference Call"

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ANALYST: AMEY SATHE

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

Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY'14 Earnings Conference Call of Bajaj Finance Limited hosted by JM Financial Institutional Securities. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask question after the presentation concludes. Should you need assistance during this 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. Amey Sathe from JM Financial. Thank you and over to you Mr. Sathe!

Amey Sathe: Thanks. Good afternoon everybody welcome to Bajaj Finance Earnings Call, to discuss second quarter FY'14 numbers. To discuss the results we have on the call Mr. Rajeev Jain, who is the CEO and Mr. Ian De Souza, who is the CFO. May I request Mr. Rajeev Jain to take us through the financial highlights, subsequent to which we can open the floor for Q&A session. Over to you, Sir.

Rajeev Jain: Thank you, Amey. Good afternoon to all of you. I have with me here our CFO Ian De Souza, Pankaj Thadani who is our Chief Compliance Officer, Devang who is our President, Consumer Business, Rakesh who is our Chief Operating Officer, and Sandeep Jain who heads our Investor Relations. Overall Q2 was reasonably strong, we have already uploaded on the website the Q2 investor presentation, and you can have a look at that. Reasonably strong quarter in general across all metrics for the company is what I would articulate second quarter as. The total disbursements were 5200 Crores, crossed 5000 Crores for the first time in the calendar actually, assets under management came tad below 20,000 Crores at 19,800 Crores. Interest income line and other income line was up substantially versus normal quarters this was as a result of the surplus liquidity which the company carried and which invested in liquid mutual funds and bank CDs resulting in an income of 26 Crores but we had a corresponding interest cost impact as well which was 25 Crores so it is a “contra entry” in that sense but it will help the company to continue to sustain its growth momentum from a liquidity standpoint. As you are aware Q2 for financial markets was a very, very difficult quarter, money markets were literally frozen for a good 50-day period until 5th or 7th of September. Loan loss and provision line came in reasonably healthy, you see a number of -2% having just one point I would to articulate here it includes last year same time we had raised our provisioning standards as a company that included a 16-Crore onetime adjustment on the overall balance sheet adjusted for that and a few other measures of strengthening the provision standard that we have taken, this number also would have risen by 30%. As a result the overall profit before tax came at 33% and as a result of the surcharge on the corporate tax the overall PAT was up 30%. On business promontory reasonably strong quarter for consumer durable and lifestyle financing in general, strong quarter for SME businesses of mortgages, loans against securities business loans. Two- wheeler degrew by 8% due to slowing sales of the two-wheeler industry in general and that

of Bajaj Auto. Three-wheeler because of our lower penetration rates in two-wheeler however we maintain our penetration rates at 30%, in three-wheeler given our low penetration rates despite sales has slowed there as well, but it is still in positive trajectory, we grew reasonably well, it is also working as a very solid hedge to our overall auto finance strategy that between two-wheeler and three-wheeler we have created a hedge for us as a business. Rural lending as a business, which is a new initiative for this year, from a business standpoint the early indicators are reasonably encouraging, we opened in 7 markets and 24 spokes in June this year, we are quite excited about it, we are opening 7 more branches in 24 more spokes in the second half of the year. In the SME businesses loan against property and home loans continue to remain very strong on a month-on-month basis between these two businesses we are now acquiring between 650 to 700 Crores of new acquisition a month, we would like to grow this number in the second half of the year from an overall market share standpoint. Commercial businesses both in infrastructure and construction equipment continue to degrow; their overall contribution of the portfolio is now down to less than 5% it will continue to go down. The auto component financing business, as I said in Q1 we would like to grow but given the slowing demand both Capex and working capital, that business is growing much lower than we would have liked it to grow. Interest cost for the company remain in line. We did not see any spike as a result of our conservative ALM management as a company, even for the surplus liquidity that we actually manage, we landed up “making a profit” on it for the quarter. As a strategy on a go-forward basis we have also taken a call that we will maintain liquidity desk in the company and as a result you will see this other income line continue to be in line with the numbers that we have actually given, when I say numbers we have given you will see the blip that you are seeing in this quarter that blip is going to remain and a corresponding interest cost will also be baked in into the overall interest cost line. As part of our overall treasury strategy we also securitize or assign 210 Crores of mortgages, mortgages is a low yielding business and a low earning business to make sure that we continue to deliver minimum hurdle rate of 12% to 14% return on equity. As we have outlined in the past we are continuing to assign it in a prudent manner to banks as a strategy. Gross NPA, net NPA sequentially was strong year- on-year also they were strong they were healthy at 1.14% and 0.26% and we have also added. From now onwards we have also now outlined in the investor presentation our overall provisioning standards by line item wise to continue to expand the scope of our transparency with the investing community, so you can go through that, it is on slide #21 in the investor presentation that has actually been uploaded on the website. Our distribution focus distribution on (indiscernible) 7.41 products continued life insurance, general insurance, wealth management, CRISIL ratings were very strong, we are ready to launch very shortly a retail credit counseling distribution product as well to continue our momentum on the distribution of our third party income products. That is for the quarter. I am ready to take any questions.

- Moderator:** Thank you very much. First question is from the line of Manish O from KR Choksey. Please go ahead.
- Manish O:** Congratulations on good set of numbers. My question on the other operating income which increased from 44.6 Crores in Q1 FY'14 to 87.5 Crores, so what are the components they are number one and secondly what is the sustainability of this line item.
- Rajeev Jain:** As I said that 27 Crores of that is on account of investment income there is a corresponding however 26 Crores interest cost line. That is one item, if you look at it last year it was 44 Crores it is up plus 27 takes it to 71 Crores there is 10 Crores of additional penal fee which is actually sitting there that is a sustainable line given the growing franchise that takes it to 81 Crores. Normal 6 Crores is other parts of the, it is a normal BAU growth from the other income growth standpoint. So it is highly sustainable is the answer that I would give you. Unless and until we take the call of not doing in investment income and then you will see corresponding reduction in the interest cost as well.
- Manish O:** And secondly the quarter two spreads when we compare to quarter one because you do a lot of consumer finance business in quarter one and then the A to Z tapering off in quarter two. So this time there is decline in the yield on AUM on a quarterly average balance basis declined sharply is compared to previous expenses, any particular reason for that?
- Rajeev Jain:** See as the overall balance sheet grows it is a change in the product mix that is all, there is no other reason, as the overall balance sheet grows as we have always said that our guidance view from a long-term standpoint is a 3% post tax ROA which starts all the way from NIM and it will flow into the operating expense and then loan loss and as a result in net income in a gradual manner we are still holding after, this is the 12th or the 13th quarter that we are holding at 3.6% to 3.8% you will see it gradually go down only. So it is just a normalization of the product mix, which is driving this and nothing else. You may see this number again go up in quarter three, because it is a season, but you will again see it go down in quarter four.
- Manish O:** Yes sir, but if you look at your lap book increased from 28% in September 2011 to 36% in September 2013 so spreads in ROA more or less stable during this period so that the impact of the book mix is not playing out both at the spread level and the ROA level on a more larger period of time.
- Rajeev Jain:** Which is correct and as I am saying, it will play out. As management our intent will be for it to not play out but as eventuality it will play out is all I am just telling you. So we will find other triggers of third party distribution, we will find triggers of cost free engineering you will see, you should see lower loan loss provisions if we are going into more and more

secured and lower beta assets, but eventually it will play out is all I am just saying, it will take a quarter or two longer.

Manish O: Lastly what is the outstanding borrowing number and what it is a mix in terms of bank borrowing NCD and CPs?

Rajeev Jain: The overall borrowing is 15800 Crores and normally as we have said in our executive summary the mix is between 55-45 to 50-50 it keeps changing, it is no secret that last quarter has been difficult for money markets, so it is only fair to assume that the number would have moved in favor of banks in quarter two.

Manish O: What is your marginal cost during quarter two sir, marginal cost of funds?

Rajeev Jain: See fundamentally there was no increase as you can see from the interest expenses line it is because of our conservative ALM strategy as we keep highlighting that we do not like to take liquidity risk for us as a company even in quarter three you will see a marginal blip it is only by quarter four that it will start to play out in terms of cost of funds impact that impact may be in the region of, we will know what happens to repo on October 29, but you may start to see today where we stand you can start to see a 20, 25 basis points movement by quarter four in overall interest cost for the company.

Manish O: And lastly sir some of the two retail banks have declared their numbers and there is clear sign of slowdown the retail loan book growth there is some of the product segments they are operating and you are also operating. So what is your loan book growth outlook for H2 FY'14 going ahead?

Rajeev Jain: Look, half year is a longtime right now, we rather play it quarter at a time we would like to maintain anyway upwards of 20% plus between 20% and 25% growth in quarter three, but as you are saying at a fundamental level both discretionary and non-discretionary spending is slowing and it slowing is decelerating reasonably quickly that is a fact, we are small in size it is only 20000 Crores of assets so to that extent we can grow faster than others that is what I would say. That is the way we look at it at this point in time.

Moderator: Thank you. Next question is from the line of Pranav Tendulkar from Canara Robeco Asset Management. Thank you, please go ahead sir.

Pranav Tendulkar: Hi, congrats on a good set of numbers. Just a query, on the 0% loan that RBI was banning are you seeing any increased flow to you in consumer durables that is one and second is how the competition is panning out in large retails where you actually source consumer durables. Thanks a lot.

- Rajeev Jain:** Fundamentally, we are not, look, a large part of the banks actions were between June and September was largely in the mobile space, it was led by Samsung above the line campaign for 0% with full page followed by Apple and so on and so forth. We never participated in that category for various reasons of economics of the business and the risks that we had, so it did not impact us. As I have said we are largely a monopoly in the consumer electronics and the furniture financing space that did not change through June to September and it has not changed even now, neither have we seen a raise in demand nor did we see a slowing demand during that period. So life for us has largely been business as usual which is a good thing to happen in this environment.
- Moderator:** Thank you. Next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.
- Shyam Srinivasan:** Thank you for taking my question. My question firstly was on cost, what is happening because we have actually seen a bump up in terms of Opex to NII, now going back to 48% so what is happening to that line item?
- Rajeev Jain:** Shyam, we have not held back investments, we are continuing to expand network in a gradual manner, we are continuing to increase our overall investments in technology, so this is part of our annual operating plan. In this current quarter our overall opex was to rise and it has risen. You will see it however come back in quarter three to a more normalized level. So there is nothing extraordinary there, we have also planned that we would do a branding campaign which we have held back at this point in time, we will take a call on it in quarter three depending on how the external environment moves, but nothing extraordinary sitting there and you will see it coming back.
- Shyam Srinivasan:** Is there any guidance that you give on that particular line item in terms of Opex to raise?
- Rajeev Jain:** No. Having said that I have said consistently that as the product mix moves we would like Opex to NII to actually come down to more like 40s, between 41 and 42 I think that is where we would like it to be, quarter two in that sense it Opex to NII is at 48% and as we can see the number rose by 40% versus growth in asset by 31% so you will see it come back. It is part of our overall growth company orientation rather than anything else.
- Shyam Srinivasan:** My last question was on asset yields, so what's happening there in terms of have you taken any rate hikes on the floating rate products?
- Rajeev Jain:** Yes we have, we did take it 25 between 25 and 30 basis points rate hike on the floating rate products. We are using pricing much more judiciously than we used to do earlier, so we are not raising rates across the board but we are clearly raising rates, in a structural manner yes

we are raising rates but not across the board and our variable rates more now with portfolios we have already taken a hike of 25 to 30 basis points on the existing stocks and in the incremental stock as well on the incremental acquisition as well.

Moderator: Thank you. Next question is from the line of Kahlil Randeria from New Horizon. Please go ahead.

Kahlil Randeria: Hi Rajeev I have two questions. One was a question on the earlier question actually you answered it in part but I want to know how you are looking at it in terms of the economy and its slowdown and it is doing what it is doing the growth that you anticipate to come at 20% or 25% is largely going to be out of market share gain or what is the strategy going ahead.

Rajeev Jain: At a fundamental level in the businesses that we are in as I said earlier Kahlil we are so small that we can keep growing which may mean somebody leaving some money on the table for us yes, so I would answer it philosophically we do not look at it that way and specially not when we are already in quarter three I do not have.

Kahlil Randeria: Because your market share has been growing, you are at 14% now.

Rajeev Jain: We will keep growing. I mean we will keep doing things in a systematic manner to keep growing our market share.

Kahlil Randeria: Okay the second question is actually on the license and if and indeed you whenever you do get a license what would the impact be on the income statement in year one and year two at and how you all are gearing towards that?

Rajeev Jain: First, we do not have a license as yet, so we will gear for it as we get it and RBI has given 18 months time to convert if it gives it so it understand that, that is the kind of time it will need. If I look at it today we are eight quarters away from converting into a bank if we got a license that is a long time for a publicly listed company to continue to, so I think we will run two lives, one of a non bank which will be in public space and another in a bank which we will prepare towards.

Kahlil Randeria: And that preparation is already on?

Rajeev Jain: I would just say this that if and when we do get a license we will engage extensively with the investing community, share our perspective on how do we expect to go out and build a bank or transition into a bank, but I think it is premature for that at this point in time.

Moderator: Thank you. Next question is from the line of Ashish Sharma from Enam. Please go ahead.

- Ashish Sharma:** Good evening sir, congratulations on a good set of numbers. Just on this whole access liquidity we want to carry you mentioned that we did not want to take any liquidity risk so for Q3 with RBI sort of cutting MSF rates will we sort of have negative impact on the margins, how do we position for Q3 and Q4?
- Rajeev Jain:** At a conceptual level it will mean a negative carry, there will be a overhang of liquidity in the book, that number however and our assessment at this point in time is not very large and not very material and we have taken a call that we will pursue it and we will pursue it largely permanently, because I think the first 50 days of Q2 were very difficult, and fortunately we never took any liquidity risk but even without taking liquidity risk one could have sleepless nights so as a company we would like to be conservative and we prepare to take that liquidity overhand but not take the risk at all. So you will see some overhang, that overhang is not very material in nature.
- Ashish Sharma:** Okay and just coming back to this sharp QoQ degrowth in disbursements is it more to do with the seasonality because I think Q2 there was not much of festivities, festival season started in October only so nothing much to read.
- Rajeev Jain:** No, nothing to read at all, you will look at the last four year results sequentially if you see last year as well quarter one to quarter two our profits fell by 15 Crores, even this quarter profits have fallen by 15 Crores sequentially. So because we have a seasonally adjusted business you should look at us as a YoY company rather than a sequential basis. So there is nothing to read into it.
- Moderator:** Thank you. Next question is from the line of Umang Shah from CIMB. Please go ahead.
- Umang Shah:** Hi Rajeev, congratulations for a reasonably good performance. Just to continue on liquidity what could be the benchmark in terms of how much excess liquidity you would be maintaining at any given point in time?
- Rajeev Jain:** We have built a framework internally, Umang, and it is dependent on how we see the external environment to be and what do we see our maturities to be and so on and so forth it is a typical treasury module and it will vary based on what we assess the overall outcome to be, the outcome is green, amber, or red. Based on that we will carry a particular amount of liquidity as a company, it is thoughtfully done and to make sure that there is no negative overhang outside of what we have planned we carry.
- Umang Shah:** Okay, so just wanted to understand that it is not a specific number that okay based on three months disbursement or four months disbursement number any X, Y, Z number per se.

- Rajeev Jain:** No it is much more complex than that. I can tell you that.
- Umang Shah:** Okay and just in that context as on date how much excess liquidity would we have on the balance sheet and as per your matrix?
- Rajeev Jain:** Between 750 to 1000 Crores at any point in time today and it changes on a weekly basis.
- Umang Shah:** Okay, so you mean to say it is that actively managed.
- Rajeev Jain:** Yes it is actively managed I just want to highlight that BFS has a reasonably large investment desk, so it is not like we have gone out and created a capability overnight on this there is a common treasury that manage as BHIL's money and BFS money so that helps us and there is a large investment team that help us manage this as well, we manage it actively by specialists.
- Umang Shah:** Understand. Secondly in terms of asset quality this quarter we have seen some uptake in the gross NPL in consumer durables and construction equipment so construction equipment is pretty much known as you have been highlighting for past few quarters but in consumer durable if you could just throw some color on that?
- Rajeev Jain:** If you are referring to slide #19 versus September last year there is improvement, last year September 97.66% of the portfolio was current, September 2013 98% is current so it is improvement versus YoY seasonally adjusted you will always see deterioration. So as I said earlier whether for income or for this do not look at especially this business and two wheeler business also in part do not look at it as sequential, look at it YoY so consumer durable has actually improved on a YoY basis, two wheeler versus September there is a 50 basis points deterioration, personal loan cross sell it is 30 basis points deterioration, these are current, I make myself clear, this is all paid, as you can see that does not mean it flows into a loss salaried personal loans can steady loans against property it is 20 basis points versus it is one account, home loans it is improved, small business loan it is improved, construction equipment clearly there are two reasons one the portfolio is declining versus September 2012 the portfolio is down 40%, so the good guys have gone away on 40% but the bad guys have remained with us whom we are trying to exit. So in a remedial management business this metric may not be a correct metric to look at on an sequential basis the overall nonperforming assets in the construction equipment business have remained flat.
- Umang Shah:** I understand and just a small clarification on loan against property, typically do we kind of monitor the end use of the loan which has been given or it is, I am just trying to understand what are the various purposes for which the loan is sanctioned in this category?

Rajeev Jain: Sorry.

Umang Shah: I am just trying to understand as to for what purpose the loans are sanctioned under this category and do we kind of monitor the end use or stuff like that.

Rajeev Jain: That is basically as a growth capital, it is a growth capital, it is for the purpose of him expanding his business or for the purpose of him buying an alternate property, these are the two single larger reasons whenever we do primary search, which keep coming up.

Umang Shah: Okay I understand and just two questions. One is in terms of growth so two parts to it obviously two wheeler is kind of de-growing and that is more to do with the industry not with you guys. So what would offset that decline, one, and second although it is a bit early days but some feelers of the festive season how is it shaping up?

Rajeev Jain: What do you want to hear, good or bad?

Umang Shah: I mean whatever is the truth.

Rajeev Jain: See if units determine demand it is slowing but that is where the natural demand is decelerating very rapidly from thereon it is a management call on what their focus is what their orientation is, what is the customer segmentation. For us as a company we are seeing clearly demand slowing but because of our focus on (indiscernible) 29.46 loan customer and above we are still seeing reasonable growth in value, but in general for the broader economy if the unit sales is slowing it is not a good sign. I think that is what is the first ten days of season kick off is telling us at this point in time.

Umang Shah: I understand, so would it be fair to assume that the slowdown in the clients acquired during the quarter that we are seeing that would be because of this two wheeler portfolio, slowdown in two wheelers?

Rajeev Jain: No boy, it has contributed in value unit terms both by units and value across all categories is what I would say to you and those numbers are largely demonstrated by consumer durable, consumer electronics and by two wheeler both are slow on unit sales I am again clarifying.

Umang Shah: I understand and just last question the 210 Crores portfolio that we have sold down so typically what is the kind of arrangement on that?

Rajeev Jain: It is a bilateral transaction. I would not want to talk about the specifics but these are relationships that we have built with various banks that are looking for assets and we are generating high quality assets so it is ROE accretive is all I can say.

- Moderator:** Thank you. Next question is from the line of Hiren Dasani from Goldman Sachs. Please go ahead.
- Hiren Dasani:** Hi Rajeev congrats. Just a couple of data points, first can you or somebody from your team repeat the breakup of other operating income of 87.5 Crores?
- Rajeev Jain:** 87 Crores, if we start the waterfall from 47 Crores last year you can grow that by 30% on a normal basis what I am assuming into 1.3 that gives you 61 Crores technically plus 27 Crores is 88 Crores, I think that is where you are in a very simplistic sense. Now earlier when I said, I said penal fees has gone up and so on and so forth has gone up, which are drivers of it, but apple for apple other income growing in line with NII growth and franchise growth this 27 Crores is additional which has come in here corresponding 26 Crores increase in interest cost as well that is where it is.
- Hiren Dasani:** So 27 Crores increase in the interest income.
- Rajeev Jain:** And 26 Crores increase in the interest cost.
- Hiren Dasani:** Just a request on an ongoing basis if you can disclose of this part what is the interest income part that would be helpful.
- Rajeev Jain:** Yes that is fine we will start to disclose.
- Hiren Dasani:** And the other thing is what is the outstanding borrowings as of September and June both?
- Rajeev Jain:** 15,800 odd Crores.
- Hiren Dasani:** And as of June?
- Rajeev Jain:** As of June 1000 Crores less is what I would say, it will be little more because we have also carried liquidity so it will be 15800, so you can remove around 1800 Crores it would have been 14000 Crores.
- Hiren Dasani:** Okay because if I look at your interest cost on a calculated basis then it seems to have gone up even during this quarter also by 30, 40 basis points.
- Rajeev Jain:** No, there is no increase, in the current quarter it is not but you will see in fourth quarter it will go up and that is why I am saying you to add this 27 Crores you to knock off 26 Crores from the overall interest cost and that is when you will see the normalized interest cost is all I am just saying.

- Hiren Dasani:** Is 10 quarter kind of an overall interest cost sound correct?
- Rajeev Jain:** It is lower than that.
- Hiren Dasani:** Okay so then it is mostly a quarterly average.
- Rajeev Jain:** It is fortunately not in a double digit as yet.
- Hiren Dasani:** Not in double digit okay and lastly just a small clarification on this provisioning coverage slide or slide #21 when you say consumer durables three to five bucket you provide 75% that means once it goes 90 DPD you provide 75%.
- Rajeev Jain:** That is correct.
- Hiren Dasani:** Similarly each bucket is basically a 30 day right.
- Rajeev Jain:** That is correct actually we should have done DPD only.
- Hiren Dasani:** In each of this product line.
- Rajeev Jain:** Yes one bucket is 30 days for due.
- Moderator:** Thank you. Next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.
- Nischint Chawathe:** Hi, I am looking at slide #13 of your presentation. If you can just help us interpret this.
- Rajeev Jain:** Now, we are trying to interpret it as well, but let me give you the sum and substance of it because one of the problems with the slide it is a snapshot view so you have to look at quarter and quarter two but let me give you the snapshot, so I have done a comparison between quarter one slide that we presented which is there in investor presentation of quarter one and the investor presentation of quarter two. For retail customers overall our PPC on 18 months and 24 months is up by 4 basis points, and for the SME business it is up by 0.68 products for customers. So what you are seeing is the up to 12 MOB is 2.74 in the quadrant below on the right hand side was actually 2.74 minus 0.68 it was 2.06 that is the way to look at it, we will try and represent it little better next quarter to give you a life cycle view rather than a snapshot view, it is a static view which is "not accurate" it is accurate but not telling you anything so it is a correct question.
- Nischint Chawathe:** The disbursement amount I think 9009 Crores and 6095 Crores are these the disbursement amounts.

- Rajeev Jain:** That is correct.
- Nischint Chawathe:** And how does that reconcile with the disbursement numbers that you disclosed as well in the presentation?
- Rajeev Jain:** So technically out of 5200 Crores 1700 Crores of assets are coming from repeat customers that is what it means, 5200 Crores of assets.
- Nischint Chawathe:** No, sir I am just looking at the retail left the top left chart and I see box 1909 I believe that 1909 Crores.
- Rajeev Jain:** Yes that is correct.
- Nischint Chawathe:** And how does that now relate with the disbursement numbers that you have put out of 26 billion or 51 billion of total disbursements.
- Rajeev Jain:** So disbursed value on top, 1909 Crores, if you correlate that number to the press release number in the consumer business 2652 the differential is fundamentally the two wheeler sales, two wheeler and three wheeler disbursement.
- Nischint Chawathe:** Okay and on the SME side?
- Rajeev Jain:** On the SME side you see the total number as 1922 you see in the quarter gone by there is the 1695, 1909 also includes the home loan sales we will just review this number we will just come back to you there is a bunching up of one asset class number in the retail assets that number will go down actually and this number will go up. We will republish this on the investor presentation by end of the day.
- Nischint Chawathe:** Actually my question was that when we look at this chart is there a way to kind of relate this to your cost of income ratio or anything to do with the expense ratios or to kind of say that if you are able to kind of sell more to your existing customers this is the particular line item in the P&L which will kind of improve or so.
- Rajeev Jain:** The answer is yes given the large franchise that we have our strategy on a go forward basis especially in a slowing environment to fundamentally focus on franchise with whom we have experience and they have experience with us and direct correlation is to overall operating cost. My cost of acquiring line is the largest line in my P&L so clearly you will see this number raise; we are investing reasonably aggressively in growing direct to customer business model. So you will see a reasonably large movement in direct to customer acquisition in the forthcoming quarters and as a result it will have a correlation to

the overall operating cost model, but it is going to take time Nischint it will be a four to five quarter walk.

Nischint Chawathe: But any particular specific targets or ratios that you may want to talk about.

Rajeev Jain: Earlier when Shyam asked a question I would eventually like Opex to NII to get to 38%, 39% we have never gone below 42 so far even in the best of this quarter.

Nischint Chawathe: That would essentially mean some sense on how many repeat customers or anything of that sort how this ratio will move on.

Rajeev Jain: You will see it start to move Nischint when you start to see it move, so don't worry, you will see it, we are publishing it on a quarterly basis you will start to see it move but direct is a not an easy business direct to customer is more complex than intermediary based business so it is going to take some time between three to four quarters you should start to see movement and as we get closer to PPC which is 3 and 5 you will see the impact of that clearly merging in the OpEx line.

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

Amit Ganatra: My question is on the recovery expenses, it is one of the fastest growing cost items what is the nature of this expense?

Rajeev Jain: Largely collections cost, as our overall franchise grows you will see this number grow, we are also over investing in it so overall cost in the economy are growing up and as a result collection costs are also growing up and our franchise is growing up, so you will see this cost continue to rise in tandem or a little faster than the balance sheet growth.

Amit Ganatra: But just to understand so this basically is incurred for collection overdue accounts or it is normal collection expenditure?

Rajeev Jain: No it is not just overdue anybody who bounces every month 150000 customers just in consumer durable bounce, I have to spend Rs.125 to collect this number a year ago was 90,000 because franchise was 40% lesser and so on and so forth so this is not overdue, out of this 150,000 only 12,000 flow, 11000 flow but I have to pay money to collect from 150,000, so this "tells you" and as I have said earlier that we have a measure in collections cost, days five to recovery that number in a good economy used to be 35%, 36% today that number is 16%, 17% but you are not seeing deterioration in our overall credit quality

because we are investing and to collect more efficiently and paying a little more if we have to.

Amit Ganatra: And these basically are expenditure which are basically paid to any agency or these are your own employees basically who get commission?

Rajeev Jain: Our own employees would go into employee cost, these are agency costs.

Moderator: Thank you. Next question is from the line of Mangesh Kulkarni from Almondz Global Securities. Please go ahead.

Mangesh Kulkarni: Thanks for taking my question. I just wanted to know about any new product line which we have launched during this quarter?

Rajeev Jain: Actually in this quarter none, we launched in quarter one which is the rural lending business.

Mangesh Kulkarni: But I have read somewhere that we were solar energy panel business and.

Rajeev Jain: No, nothing thankfully no.

Mangesh Kulkarni: Okay and we were planning to launch the credit card business, our own credit card, what is the status of this?

Rajeev Jain: We have applied to reserve bank of India and we are waiting to be issued a license. As and when it happens within six to nine months time we can launch a business.

Mangesh Kulkarni: But any second thought on this business because of the curbs on this EMI products launch by the Reserve Bank.

Rajeev Jain: No we see it as a very large and strategic opportunity and we are pursuing it subject to RBI giving us the license.

Moderator: Thank you. Next question is from the line of Ashwini Agarwal from BOB Pioneer Mutual Fund. Please go ahead.

Ashwini Agarwal: Hi, Rajeev can I have the average maturity of your assets in terms of consumers, SME and commercials.

- Rajeev Jain:** We do not give that breakup but I can tell you that overall entity level residual maturity of assets is 22, 23 months and residual maturity of liabilities is on a blended basis is 21, 22 months.
- Ashwini Agarwal:** As you mentioned that you expect about 22%, 24% growth next year which all the segments will drive that growth?
- Rajeev Jain:** Given our relative size in each line of business we can grow in every line of business 20%, 25%, those who do not grow that means those business are not doing efficient.
- Ashwini Agarwal:** Going forward since you are talking about slowdown in consumer durables and all the related business do we see a decline in subvention offered by the manufacturer because till now there was inventory piled up so they were giving some subvention to push up the products?
- Rajeev Jain:** No they have never run business that way, auto companies do run business that way, consumer durable companies do not run it that way, they see it as overall sales promotion cost and run a reasonably do systematic engagements on an ongoing basis, they see it as a cost of doing business, they see it as a marketing cost rather than anything else so they have no linkage to inventory, on the other hand from a subvention cost standpoint our focus is on creating value for manufacturers. Now the biggest value that we can create is to push premium products for them. So last year we were growing LCD well, this year we are growing LED aggressively. So LED is where they make most amount of money we are helping them sell more LEDs and as a result they are not cutting on our subventions. LCD they are cutting on subventions because they are making less money.
- Ashwini Agarwal:** Do you see competition increasing from banks on the SME front and commercial front?
- Rajeev Jain:** One of the silver linings of slowing environment is that competitive activity has remained benign; I think it is a good part, so I think competitive activity is okay, it is not intense at this point in time.
- Ashwini Agarwal:** What would be a comfortable tier I ratio?
- Rajeev Jain:** We just raised capital in February, we are at 21% blended tier 1 and tier 2, tier 1 is today 18% as I have always said consistently at 14% will go out and raise money. Our growth is 30% so actually we have not diluted anything in the current since we have raised capital. So we are quite fine.

- Moderator:** Thank you. Next question is from the line of Mihir Ajmera from Enam Holdings. Please go ahead.
- Mihir Ajmera:** Hi, Rajeev. I just have two questions. One you explained something on the provisioning side 30% up on a like-to-like basis I was just wondering if you could give some more detail into that.
- Rajeev Jain:** Last year same time this number was 53 Crores, this included a 16 Crore onetime provisioning which we did so adjusted for that the number is 53 minus 16 that is 37 Crores. 37 to 52 but that is not how you have to read it, on 37 because we raised the provisioning standards then in quarter one we raised our standard asset provisioning as well adjusted for that the growth is 30%.
- Mihir Ajmera:** Okay, so in this quarter 52 Crores is there a breakup of general provisioning versus specific.
- Rajeev Jain:** Yes, standard asset provisioning is whatever is the balance sheet growth you can take 40 basis points of that.
- Mihir Ajmera:** Okay and there is no catch up this time for anything.
- Rajeev Jain:** Nonmaterial.
- Mihir Ajmera:** Okay and just some comments on the festive season I heard your comments on decelerating overall but just versus your expectation how has it been so far.
- Rajeev Jain:** I would say slower than expected, but look it has been caused by, it is not clear, AP is closed, Orissa was technically closed over the last one week not many people know Surat, Baroda parts of Gujarat were under water between 28, 29 till 5, 6 monsoon before it reaps benefits I think has wreaked havoc, so we will see. I think it has also been some of these pieces, that is not allowing a very firm view on whether what is the level of deceleration, because these are extraneous events in that sense.
- Mihir Ajmera:** Any particular segment that you could highlight for us which were either better or worse materially versus expectation?
- Rajeev Jain:** It is very early days; we are quite okay, it would not be appropriate because there are no clear signals at this point in time.
- Moderator:** Thank you. Next question is from the line of Samit Vartak from Axis Holdings. Please go ahead.

- Kuntal Shah:** Hi Rajeev Kuntal hear. Just couple of questions, what is the manpower head count and can you give us a flavor on your IT spend going ahead in couple of years, what kind of investments and how you are capitalizing them and how you are passing through OpEx?
- Rajeev Jain:** Kuntal there is no straight answer but let me try and give it, annually today our technology spends per year would be in the region of both Opex and Capex put together would be around 60 Crores give and take 5 Crores here and there, out of that a large part of it would be Opex, if I take 60 Crores largely 40 Crores of that would be Opex we do not like to capitalize in general as a policy. So 20 Crores would be capital items like infrastructure related pieces, software cost and so on and so forth we normally eat in the year.
- Kuntal Shah:** Okay and what is our absolute manpower head count stands today.
- Rajeev Jain:** Head count in the company would be in the region of around 3300 people.
- Moderator:** Thank you. Next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.
- Saurabh Kumar:** Hi sir I actually have two questions. One is what are the key products you are introducing in your rural business and the second is on the slide #13 I just wanted some clarification so this number which moves in retail from 1.24 as a product per customer to 1.43 that means that between 12 to 24 months the differential between this which is about 0.19 is the incremental new loans which have been sourced by the same customer.
- Rajeev Jain:** I missed your first question sorry.
- Saurabh Kumar:** Sir what are the key products you are introducing in rural finance?
- Rajeev Jain:** The second question I let Devang answer he made this complicated chart, so let me answer the first one. In the rural lending business we have taken a view to do a branch based business model essentially it is a walk in model, fundamentally we offer three products to the client and three lending products and three distribution products. We essentially offer him consumer durable loans which are done through B2B. We offer him gold loans, and we offer him refinance loans against mobile assets. We offer life insurance products. We offer general insurance products, so these are overall five products that we actually have. We also would do once we have minimum client acquisitions we would do personal loan cross sell in that market as well based on the client's experience on our books. So these are the six products that we actually offer.
- Saurabh Kumar:** Okay thank you sir. And sir on this consumer durable what will be the B2B in this.

- Rajeev Jain:** B2B is that if it is Karad in Maharashtra then it will not be branch based it will be dealer point. So it will operate in a very similar manner as large markets operate.
- Moderator:** Thank you. Next question is from the line of R Pandit from Quantum Securities. Please go ahead.
- Rati Pandit:** Hello this is Rati Pandit from Quantum Securities, thanks for taking my question could you please repeat the provision breakup, I saw in your unaudited result that 17 Crores was the incremental provision so what was the provision for loan losses?
- Rajeev Jain:** Sorry.
- Rati Pandit:** I saw in your 17.72 Crores the incremental provision it is mentioned in your unaudited results so I want your total provision breakup the loan losses and the total standard asset provision.
- Company Speaker:** See this 17.72 Crores is the last quarter ended June 2013 what provision we made for when we changed our standard asset provisioning from 0.25 to 0.4.
- Rati Pandit:** I am extremely sorry for misreading it but I want your provision breakup for Q2.
- Company Speaker:** Provision breakup for Q2 means?
- Rati Pandit:** For loan losses and standard assets.
- Rajeev Jain:** 1000 Crores is our asset growth you can safely assume that it is a 40 basis points number so that is a 4 Crores number. So for the quarter if the loan loss and provisions is 52 Crores 4 Crores would be fundamentally contributed by standard assets incremental and balance 48 Crores is loan losses and general provision, not taking into account the standard asset provision.
- Rati Pandit:** Sir going ahead of what do we think about our asset quality on the auto loan segment?
- Rajeev Jain:** Auto loan overall versus quarter one there is an improvement as you can see on slide #19 in June I had highlighted even in our earnings call that we have seen a deterioration it is back to normalcy in quarter two we think given the monsoon things should improve, given the strong monsoon rural demand, rural market should see an improvement, but on delinquencies we are taking it quarter at a time at this point in time. Overall business model and the matrix we are taking things quarter at a time at this point in time.

Moderator: Thank you. Next question is from the line of Ritika Dokania from Birla Mutual Fund. Please go ahead.

Ritika Dokania: Hello sir I had a question on the rural product that you introduced in quarter one. So how do you define rural like which kind of tier 2 whether you define it by the population size and...

Rajeev Jain: So fundamentally branches where we open our branches it is population less than 1 Lakh and spokes that we have open nearby within a 50 kilometer radius our population is below 50000 that is our internal definition of defining rural.

Ritika Dokania: What kind of radius are you planning to cover through a branch?

Rajeev Jain: Each branch has four spokes, which have to be within 50 kilometers.

Ritika Dokania: Okay and that spokes can cover how much radius further.

Rajeev Jain: No they do not. It is a city-to-city business. If you open in a branch in a particular less than 100000 town we do not go outside. We do business only in that town, if we have four spokes which are in a radius of 50 kilometers it is only in those spokes with a population of 50,000 that we do business in, we are not covering in between and we are not doing any disbursements or loans outside of the town that we are talking about.

Ritika Dokania: Okay sir from one branch the target population will be 100,000 there.

Rajeev Jain: That is correct and four spokes attached to it which is another 200, 000 so each branch is catering to a population of 300,000 and each spoke has an authorized service center of ours which is technically a business correspondent who has a full-fledged office with our branding who essentially sells services and collects on our behalf and gets a fee for it.

Ritika Dokania: Okay so they would not be on your rolls.

Rajeev Jain: No they are not on our rolls, they are paid variable commissions, they are paid a minimum retainer to maintain the branch and they are paid variable commissions.

Ritika Dokania: Sir how many such branches are you planning to open in FY'14?

Rajeev Jain: We have opened at this point in time including branches and spokes 30 we will open 30 more in second half of the year.

Ritika Dokania: In total 60.

- Rajeev Jain:** Yes.
- Moderator:** Thank you. Next question is from the line of Sameer Kulkarni from Vantage Securities. Please go ahead.
- Sameer Kulkarni:** Sir congratulations on a good set of numbers. Sir recently the central bank has instructed banks to stop offering zero interest EMI schemes, do you see the possibility of similar happening into the NBFC also and what would be the impact on for us?
- Rajeev Jain:** We are proactively engaging with Reserve Bank to articulate our point of view, that is point one, two we think necessarily they need not be the same set of principles that need to apply from bank to non-bank, three, we have already made proactive changes to the concerns that Reserve Bank has on customer advocacy and transparency. I did a conference call as well with the investing community three weeks ago, so there are set of changes, they are also published on our website. We are looking at a few more changes that we may want to make as a company to make sure that both in form and in spirit we are fully in line.
- Moderator:** Thank you. Next question is from the line of Kaushal Patel from India Nivesh. Please go ahead.
- Kaushal Patel:** Sir my question, it has been answered. The only thing I have also seen the changes on the website like what we have been listing that zero percent EMI scheme I think now we have stopped. So what I would like to know what will be the impact on our business in this festive season due to this RBI speculation.
- Rajeev Jain:** We are eagerly awaiting to know that as well but let me just state it that I think business is an outcome of distribution, product proposition, customer segmentation and so on and so forth just mere advertising does not drive an outcome but to be pretty honest do we believe there can be a small impact yes and are we prepared for it, yes, so I think that is how I would articulate it, I would not like it to happen but would I be pragmatic enough to answer that there could be a small impact we will wait to see in this quarter.
- Moderator:** Thank you. Next question is from the line of Chiranshu Kumar from Girik Capital. Please go ahead.
- Chiranshu Kumar:** Good evening sir congratulations on a good set of numbers. Actually earlier you told that you are moving more towards normalization of portfolio thing in the long run. So could you just elaborate up on that a little bit?

Rajeev Jain: Eventually you should see a 50%, 55% of the business coming from SMEs 15% of the business coming from commercial, and around 30%, 35% of the business coming from consumer. As long as the consumer business is a larger dominant driver you will see elevated levels of NIMs, you will see elevated Opex, you will also see elevated loan loss, but it also means you will see eventual elevated ROAs, as the business mix optimizes to a 30%, 35% consumer, a 50%, 55% SME and 15% commercial you should see improvement, you should see normalization of the overall business model.

Moderator: Thank you. I now hand the conference over to Mr. Amey Sathe for closing comments.

Amey Sathe: On behalf of JM Financial I would like to thank Mr. Rajeev Jain and his team and all the participants for joining us for the call today. Thanks a lot.

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