



# “Bajaj Finance Limited Q4 FY '20 Earnings Conference Call”

**May 19, 2020**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Bajaj Finance Limited Q4 FY '20 Earnings Conference Call, hosted by JM Financial Institutional Securities Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Karan Singh from JM Financial. Thank you and over to you, sir.

**Karan Singh:** Thank you. Good evening, everybody. And welcome to Bajaj Finance's earnings call to discuss fourth quarter of FY '20 results. To discuss the results, we have on the call Mr. Rajeev Jain - Managing Director, Mr. Sandeep Jain - Chief Financial Officer of Mr. Atul Jain – CEO Bajaj Housing Finance. Mr. Anup Saha – Deputy Chief Executive Officer of Bajaj Finance and Mr. Deepak Bagati, Chief Risk Officer. May I request Mr. Rajeev Jain to take us through the financial highlights, subsequent to which we can open the floor for Q&A session. Over to you, sir.

**Rajeev Jain:** Thank you, Karan. Good evening to all of you. First of all, our apologies for doing this call so late in the day. I will be referring to our investor presentation which we have uploaded on the Investor Section of our website. We have provided a reasonably comprehensive update to the investing community. I will try and run 3-4 slides very quickly. It's a long presentation. Its overall 69-odd pages. I will just run through the executive summary and two other slides downstream, talking about the moratorium to our base and then open it up for questions.

Quickly jumping to slide number four on our presentation. In our assessment, clearly Q4 was quite a promising quarter, aided by various fiscal measures that Government of India had actually taken and good monsoon. Economy, in our assessment across the businesses that we cover, was clearly on the mend in Q4. But COVID really changed everything from 22nd of March and lead country to a full lockdown. Company did lose 7 to 8 productive days in March from 22nd of March onwards. Despite all of that, we had very good 81 days, and overall the quarter was a pretty good quarter. Assets grew, new loans grew, customer acquisition grew and overall franchise grew.

If you look at Q4, balance sheet ended with 27% growth YoY. Adjusted for eight days of productivity, the growth would have been something like 31% in Q4. Loan loss to average AUF stood at 139 basis points. It includes a Rs. 1,419 cores one-time provision cost that is actually sitting here. Despite the Rs. 1,419 cores of impact that we have taken on a one-time basis, overall PAT came in at Rs. 948 crores, a degrowth of 19% YoY. Without the Rs. 1,419 cores one timer, PAT growth would have been 38%. ROE came in at 2.9%. On a full year basis, OPEX to NIM has come in at 33%. Loan loss to average assets is 3.1% and PAT at Rs. 5,264 crores with growth of 32% and ROE despite Rs. 1,419 cores one-time impact is coming in at 20.2%.

What is relevant and important at this point in time to everybody is that what is our view on COVID-19. That is detailed on Panel 5. These are clearly unprecedented times. We are focused

on, as we articulated on April 6th, capital preservation, balance sheet protection and operating expenses management. Tailwinds that we have is, very healthy capital adequacy, very strong liquidity position. As a result of a one-time impact that we have taken of Rs. 392 crores on two large stressed accounts, we are entering next fiscal with virtually similar gross NPA, net NPA which is giving us tailwind.

Our deposits book is now Rs. 21,427 crores. We continue to deal with mass affluent clients, other than in our two wheeler portfolio. In general, given the tailwinds and the headwinds, we are very confident of navigating the challenges posed by COVID.

Let's just go through very quickly as to what we are up to and what gives us that confidence, to panel 6. Its 19<sup>th</sup> **May**, which is 50 days into Q2 and 60 days into COVID. Clearly, we have taken a cautious stance on and have tightened underwriting standards, and LTV norms across businesses. We had no business in our B2B business in April due to lockdown. From late April and early May onwards, green and orange locations have started to resume business.

We are present in 2,134 locations, our 1,600 locations are actually open, 1,583 to actually be precise. We are now originating between 22,000 to 25,000 applications in these 1,583 locations on a given day. No lending in auto finance. On B2C which is our personal loan cross-sell or our unsecured businesses, we took a view to not lend in April and in May. We will gradually reopen first in green and orange from June onwards, and pick it up from there. Similar for our SME businesses. *MFL and BFAL both offer Gold loan at 12% p.a. collection and valuation at home and the cost of funds have a difference of about 150-200bps for both despite BFAL also having a strong deposit franchise and with its geographic reach it can garner a lot of market share in times to come in this segment.*

150 app/loc/  
day

[https://  
www.bajajfinserv.in/  
gold-loan-fees-and-  
interest-rates](https://www.bajajfinserv.in/gold-loan-fees-and-interest-rates)

B2B Rural has also resumed operations. We do believe that rural will be the fastest to recover. One of the businesses that we have been building, which we will not talk too much about, is gold loan business. We do expect to see increased demand in this business, and we have organized ourselves in the last 60 days to be able to seize that. Mortgage business for us, which is 32% of the balance sheet is essentially in top 30 cities and mostly in red zones, so it will take longer to recover. Commercial lending is virtually in pause, except for lending to existing customers. LAS remains open, we are willing to lend, but demand is very low given the volatility.

So that's on where we are in the last 50 days from a open-for-business standpoint. If we jump quickly to liquidity, we ended, as on 15th May, at tad below Rs. 21,000 crores. Additionally, we have SLR investments of Rs. 3,310 crores. 18.6% of our overall borrowing, is technically in cash and cash equivalent at this point. Given the environment, given the risk aversion in general, I would say that at least for the first half of the year we will continue to run on a high liquidity mode. We have stress tested our liquidity model very, very deeply and we remain very comfortable to support growth as it comes back and the repayment obligations that we have as a company for a long foreseeable period.

We continue to remain open for business to accept deposits. Even during the period of lockdown we have originated sizeable value of retail deposits. We are also repivoting the deposits business

and anchoring it more towards Retail. Retail : corporate mix is now 67:33, it's like to probably gravitate towards 75:25 or 80:20.

OPEX, really where we have significant control and company has moved with agility to manage its OPEX. We do believe we have significant modularity across our lines of businesses. Company has done, what lots of other companies have done, frozen all incremental and replacement hiring till September 2020. We do have a modular compensation structure which helps the company in times like this, so you will see reasonable reduction in salary cost, which is in general the largest line item for most financial services companies. We have frozen advertising, promotion, travel, training, and so on and so forth. In general, it's our assessment at this point of time, based on the actions that we have taken, on our fixed OPEX we have knocked off anywhere between 20% to 24% of our fixed OPEX in the last 60 days. Rightfully, we have also suspended all new branch expansion.

AGILITY -  
MEANINGFUL  
DEMO

Lastly, and more importantly, while we believe India will come back, you got to prepare for everything. We do believe there is an opportunity to reimagine our cost structure. There is an opportunity in these challenging times to see how business could be done differently as we get out of COVID-19. So, we have introduced in the company a zero based budgeting model across businesses and functions, and hopefully we will see a reimaged way to do business in the next 9 to 12 months' time. trying to explore new alternatives to instill robustness in cost structures

Zero-based budgeting (ZBB) is a method of budgeting in which all expenses must be justified for each new period. The process of zero-based budgeting starts from a "zero base," and every function within an organization is analyzed for its needs and costs. Jan 23, 2020

A very important question is that where we are?. Did we get into this situation with trouble in hand or did we get into this with a clean slate? Clearly, it was a clean slate, as you can see from the data that we have actually published. That on a year-on-year basis as of February, other than our two wheeler business and our lifestyle business, we were same or better off. Across out of the 13 lines of businesses, only two were yellow or red and rest 11 were green.

very  
important,  
conscious  
crystal-clear;  
backed by  
facts and not  
mere words

It has got demonstrated by our Q4 results, that company has very strong pre-provision profitability to navigate through the potential risks emerging from COVID-19. You know, I think that is an important point that do we have sufficient profitability to sustain shocks and COVID is, if anything, but a once in 100 year shock.

Model is stress tested with time and proves the strength of the company

backed by 54% of PBT as fee Income pool - which alone can take around 85% odds of all ECLS(1,2,3) and impairments

Clearly, we have started to prepare for COVID-19. We took, as you can see, Rs. 1,419 crores of one time additional provision. There were three elements to this. One was an annual ECL recalibration, that is Rs. 129 crores. Second was Rs. 900 crores of general COVID contingency provision. And we decided to charge-off the two large identified stressed accounts that have been outlined to investors, we decided to charge them off totaling to Rs. 1,419 crores.

22nd point on Panel 8 is important, there are questions on what is the overall provision available. On standard asset provision, as a company, we have 159 basis points of total standard assets provision available. So, on Rs. 147,000 crores, we have 159 basis points of provision available, that is Rs. 2,352 crores of total standard asset provisioning that is available with the company.

On 23rd point on panel 8. 27% of consolidated AUM as of April 30th is under moratorium at this point. Off this 27%, 68% have no recent bounce history. No recent bounce history being defined as, in Jan, Feb and March they did not bounce.

basically only 32% of 27% i.e. total book bounce = 8.64% of total book in lock down that is bounced & in moratorium

People ask us, have you done scenario planning? Answer is yes. Scenario planning takes into account all the lines that you see written here. Clearly, the focus or the modelling is essentially focused on the moratorium portfolio. The entire scenario exercise would be on clients who have given moratorium. What is the likelihood of those moratorium clients slipping into default? And those who don't slip into default in moratorium are obviously, in general, adjusted for the second order impact of the economy, should continue to hold their performance in line or better.

On Panel 9 point 25. Bounce is up 2.5x to 2.7x and has to be collected. We have used the last 60 days to significantly augment, expand our collections capacity model, so that as markets start to open, whether it's green, orange or red, or what we are increasingly calling internally, deep red, we are ready to rapidly move and engage our clients to be able to collect efficiently and effectively. And we are not waiting for it to open. We are adding, if I may give you a number here, close to 2,800 officers in the company are being added to this activity.

On Panel 9 point 26, Gross NPA, NNPA, stood at 161 basis points, 65 basis points respectively. The line that you see here represents that we chose not to give moratorium from an accounting standpoint to those customers who had high likelihood of default. If I had taken it for Apple-to-Apple and given moratorium to all the clients, we would have published a number of 138 basis points gross NPA and 51 basis one net NPA.

Overall profitability contracted by 19%, as you are aware, adjusted for Rs. 900 crores it would have been up 38%. We are looking at a margin profile across our lines of businesses. We do suspect and expect a more benign competitive environment. But of course, it will be subject to comparative intensity as to how quickly others come back. Our entire focus at this point is on mining our customer franchise base.

Best PART i like; they took it on their chin to make their balance sheet more robust; let the stock price reduce; ultimately markets in long term would be voting sorry, my bad weighing machines

New to Bajaj customer : New to bank customer has always been riskier than existing customer. We are using the franchise to do more with them, whether it's a health card, health insurance or various other products that we feel comfortable. So, the focus will remain for a foreseeable future on existing to Bajaj rather than new to Bajaj.

Capital adequacy strong at 25.01%, book value came in at Rs. 538.

Let me just jump through now straight to panel 50. This is our provisioning coverage data. You see on a gross NPA basis, from a management assurance our auto finance is red. Two wheeler financing business, gross NPA, net NPA year-on-year jumped by 130 basis points. Otherwise, you see a 28 basis points movement in sales finance, and 22 basis points movement in B2C businesses and so on. Rural B2B improved, rural B2C was flat. Commercial lending, because of the charge-off of the account dropped from 64 to virtually zero. Mortgages dropped as well. So

9% of Book - Auto

Other parts of book pretty stable or improving

u have around 4.2 Cr. customers franchise; just add 10% to this franchise ~ 4.7 Cr., if you can just lend/ activate to 17 odd % of them at a modest sum of 50k/ customer keeping you margins and NPA in tact you can easily grow you AUM and bottom line for this year by 30%

<u>Existing + New Customers (Cr.)</u>		
	4.70	
<u>Loan/Customer(Rs.)</u>	<u>Customers to Loan (Cr.)</u>	<u>Incremental Book (Cr.)</u>
50,000.00	0.80	40,000.000
	<u>AS % of Current Franchise</u>	
	17.02%	

In case either you can lend much more/ customer or increase customer base to reduce % Activation or activate more from existing customers plus side can be surprise.

that's really the gross NPA and net NPA, 154 on a year-on-year to 161, sequentially flat. Net NPA year-on-year saw a movement of 2 basis points. And this also includes, as you see below, a set of changes as required by RBI. And as you can see below, this on an apple-to-apple basis meant gross NPA which is coming at 161 basis points otherwise would have been 155 basis points, technically flat. And net NPA actually would have been down from 63 basis points to actually 60 basis points.

For a 27% AUM growth and 30 odd % PAT growth technically NPA are flat; even in these tough times.

Let me now jump you to panel 58, which is really by portfolio we have provided you data on balances, amount of AUM under moratorium, percentage of AUM under moratorium and so on. It's a little busy slide, but out of Rs. 143,000 crores, Rs. 38,500 crores, which is 27% of total AUM is in moratorium at this point in time as of April 30th. On an average the bounce rate was 12%. In April it jumped to 3x. Fortunately, it does seem that whatever had to move moved, we have not seen much movement, more worsening, from there on. It's a 100 basis points worsening. 68% of these clients have never defaulted. So, if the economy was to come back and things were to get normalized in two to three months' time, it is possible that lot lower hits may have to be taken on this portfolio.

At this point in time, we have a 233 basis points coverage on the moratorium portfolio. Largest impacted in this is clearly the mass business, the first row that you see, which is our two wheeler business. Its 9% of the portfolio, but a substantially larger portion of our moratorium book. Adjusted for this, in the rest of our businesses where we fundamentally deal with mass affluent clients, the overall moratorium would be around sub-22% actually.

There is more data on how overall leverage of clients is looking, under normal circumstances there may be interest in that, if we were in a non-COVID situation. But in the interest of transparency, we decided to still provide this data, we provide this annually. We publish this data to ensure there is continuity on an annual basis. But I guess given the environment, there is low interest on it.

These were the slides I thought I wanted to cover. We can refer to more such slides based on questions. That is really from us, very quickly. And happy to take questions.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.

**Dhaval Gada:** A few questions. First is on slide 58. I was really surprised to see the sort of bounce rate in the consumer B2C business, given the sort of consistency and these are all cross-sell customers essentially. So, I mean, first your comments around this portfolio. And would it be the most riskiest portfolio amongst all the other portfolios in terms of just the effort required to collect this amount? So, one.

And the second question that I had was on the rural business. So, I mean, just your thoughts of how much opportunity is it in the current environment, given you mentioned that gold loan is

something that you are picking up. So, some comments around the rural business on the growth front and on the B2C business on the asset quality front.

**Rajeev Jain:**

Look, you see as well, the so called riskiest to so called safest, everything is up 4x. Look at the mortgage business, right, we deal only with salaried customers, a 4.5% average bounce is up 4x. I am giving you a reference point, there is fundamentally no outlier on this panel. Let me tell you, mortgage is the safest portfolio, doctors are one of the safest lines of businesses, even they are up 4x again, 3.5x, 4x. And it doesn't happen that 5th of March you bank a portfolio and it has a bounce rate of x, and on 5th of April, the same customer you bank he is at 4x. So clearly this is not credited work. Okay? And that too when March had fundamentally passed. We went into lockdown virtually on 25th or 26th of the month. Most people had to earn whatever they had to earn. There is more than credited work. And we provided full disclosure here, you tell me which line is not up 2.5x to 3x? None. So riskier or non-riskier is a matter of judgement, we will rather go by data rather than matter of judgement.

I must just make one point, which is an important one. They are all adjusted, each one of their profitability models. Would mortgage have lowest, the answer is yes. Would B2C business have highest? The answer is yes. So, it's adjusted for risk and cycles that really how each one of these businesses stand. So that's part one. Part two on growth, we are focused on restarting business at this point. That's our core focus. Locking it down is very easy, you just put a lock down but when you come back 60 days later, you got to dust everything off, you got to clean the house, that is really our focus at this point in time. We are just dusting everything up, dealing with different states, different nuances, different branches, and so on and so forth. We want to get the company to work quickly. Growth is not on our immediate priority at this point in time. But are we a growth company? Yes. Would we like to grow, come back to growth mode sooner rather than later? The answer is yes. But not at the cost of being in haste. And gold loan will move as well.

**Moderator:**

Thank you. The next question is from the line of Kuntal Shah from Oakland Capital. Please go ahead.

**Kuntal Shah:**

Again, congratulations for some exemplary data disclosure, which we don't see from any of the financial players. My question is, we have 160 bps standard provision and 90 bps extra provision as per ECL. Can you compare what is the requirement for RBI, IndAS and I-GAAP for banks and for NBFCs and how do we stand vis-à-vis this?

And secondly, we had Rs. 275 crores exposure to ILFS and Rs. 312 crores to Karvy. You have written-off Rs. 587 crores, but you have lot of security against that. So, you could choose to provide more for COVID and less for this, but you have chosen to do exactly the opposite. So, can you throw some logic while you are in a rush to clean up the balance sheet far faster than is required to do so?

**Sandeep Jain:** On your point relating to general provisioning, it's not 160 plus 90 basis points, its 160 basis point of provisioning that we are carrying, totaling up to approximately Rs. 2,300 crores that we are carrying at this point in time, including Rs. 900 crores that we have created for COVID-19 specifically. If you look at RBI has mandated from the current year to also disclose in the balance sheet the comparison if the company was supposed to follow the I-GAAP or the potential norms of RBI from provisioning point of view, how the provisioning would have looked compared to ECL. And that disclosure will be part of the annual report. You will see that company continues to provide significantly higher, I would say, multiples of what one would have provided under prudential norms.

To your question regarding writing-off Rs. 537 crores of amount. One, this amount does not represents the total amount because some portion of the amount was already provided for between last year that we did for IL&FS and in the current year Q3 that we provided for Karvy. So, this amount that you are seeing in the P&L as a hit, is a net amount only for the quarter.

**Kuntal Shah:** No, no, I am saying overall you have written-off Rs. 587 crores, cumulatively over quarters. But you still have the assets under your collateral, so there you expect some recovery, right?

**Rajeev Jain:** Kuntal, two things. On IL&FS, technically, there has been 18 - 19 months into the entire debacle. Legally, we are not seeing any outcomes. We are not seeing any sale, we are not seeing any outcomes. So as prudence would demand, as management we have a responsibility to justify to our auditors and to our shareholders that how long will we wait. Do we have 2x the security cover on the asset? The answer is yes. Okay? Do we expect recovery? The answer is yes. But time value of recovery is as important as the recovery. So that's first part. The second, which is a broker account, do we expect significant recovery likely, is yes. Given the state of things, given that the account had technically given the security for the regulatory action that happened and despite the 10% that we own off a subsidiary company of theirs, in prudence, we took the decision to provision and charge it off. Any recovery that comes in on both the account will fundamentally augment our COVID buffers, if required. If they are not required, they will get passed through to the P&L for lower risk in future.

Sense of REsponsibility

Balance Sheet First

**Kuntal Shah:** Sandeep how much is our provision in excess to the bank's mandated provision?

**Rajeev Jain:** Kuntal. It's not a straight answer. And that's why, as Sandeep is saying, it is now required by RBI and there will be full disclosure on that, because risk weights and asset classification etc., come into play for determining the standard asset provisioning part.

**Moderator:** Thank you. The next question is from line of Nitin Jain from Arc Capital. Please go ahead.

**Nitin Jain:** I have only two quick questions. If you could disclose the deposit number as of the end of April, or better still, 15th of May? And the second question is, in your Q3 presentation you had mentioned about the systematic deposit plan. But I don't find it in the Q4 presentation. So, has the company dropped that or can you give some color on that? Thank you.

**Rajeev Jain:** We won't have it handy at this point in time. Maybe we can source it before the call ends, maybe we can give you data as of 15th May, but we don't have it handy.

**Nitin Jain:** Sir, 30th of May

**Rajeev Jain:** The second order point, has SDP dropped? This answer is no. It's a new product. We are building that out. We are quite excited about the product given what SIP has done. We think SDP could fundamentally do that. There was one large technology capability that was coming in that would have made the product a lot more attractive, as a result of the lockdown that's got pushed out to 1st of June. So, we haven't dropped it and we hope to build a very large business out of this. Second order point, without knowing the details as of today as to where we are on deposits, if you refer to page number seven, we have actually specifically said that we are reducing our reliance on corporate deposits. As you can see, absolute deposit book, it's likely may go down by design, not by anything else. We are largely renewing only at much lower deposit rates on the corporate side of the balance sheet. Retail also we have dropped rates, effective 5th of May, but that's a strategic part of the balance sheet, and that we intend to continue to invest and grow.

**Moderator:** Thank you. The next question is from the line of Parag Jariwala from White Oak Capital. Please go ahead.

**Parag Zariwala:** Rajeev, in the previous call you have highlighted the three scenarios and relevant increase in the credit cost and the profitability and the growth matrix. Now, most of the states lockdown has been extended till May end. Anything you can guide further on this would be very helpful. That's my first question. Secondly, in this overall environment, what happens to fees? Because what I see is that in the last two years we have done excellent on fees and fees has very high correlation with incremental disbursements. Thank you.

**Rajeev Jain:** Clearly, if you refer to panel eight, we are fundamentally saying, have we created multiple scenarios and the impact of credit cost as a result of COVID-19? The answer is yes. Are they wide and deep from a scenario planning standpoint, the answer is yes. Do they take into account phasing behavior of moratorium, collections capacity management? We are waiting to see what RBI has to do on whether there is an extension of moratorium or is there a forbearance that comes in, or there is none. It's difficult to predict at this point in time. And the broader point, which is, how does the economy respond as it opens? So, quite honestly, do we have a model? Yes. Is that models constantly being repopulated as a result of our experience on an ongoing basis based on these points that I made, the answer is yes.

Now let me come to the number point. Everything else okay, what is the view on the number? I will make a different point that, can I give you a number based on what I am seeing? the answer is yes. What will be the possible variance in the number, it is difficult to state. Though I will repeat the point that I am making, which is linked in a way to your fee point, that our pre-provision profitability as a company remains very strong. We can sustain shocks and COVID is a once in 100 year shock. All scenarios are saying that we will continue to remain solid, if that

does provide some degree of comfort. Did we say as part of scenario three that you are likely to see credit cost go up by 80% to 90% referring to my April 6th call? Are we holding mostly there in line based on April and May experience, plus/minus 10%? The answer is yes. Can that change for better? Possible. Can that change for worse? Possible. You will have to just bear with us and with everybody, we know only as much as you know. It remains an important driver, I mentioned it specifically, health card, health insurance, mining the franchise is the only way we will navigate this storm better. Sources of Fee revenues

**Moderator:** Thank you. The next question is from the line of VP Rajesh from Banyan Capital. Please go ahead.

**VP Rajesh:** My question is regarding the recent announcement by the Finance Minister about suspending IBC process. So, could you comment on the impact of that on our book?

**Rajeev Jain:** No impact on our book, we have no clients under IBC. I mean, will there be an impact? Like IL&FS kind of account, the answer is likely yes. And this is exactly my point that given that we are in loops on legal, we might as well charge it and move on. Otherwise no impact. Force charge off of issue accounts, no impact.

**Moderator:** Thank you. The next question is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

**Bharat Shah:** Rajeev, On disclosure, I must congratulate your team and yourselves for this. During adversity time, people usually attempt to shove things under the cover, but I think here the disclosure level has actually exceeded expectations. Just one part, on the earlier question of the fee income, I couldn't fully comprehend. How do you plan to ensure that the fee income remains robust? Can you please deal with that again?

**Rajeev Jain:** So, I will give an example, Bharat bhai, let me let me make a point. What I wrote as health card, let's say as example. We have 20 million EMI card customers as a company, that's a number that we disclosed. We were over the last 18 months have been investing in a life care financing business. We are present in top 30 multi-specialty hospital chains across top 20 cities in India. We are seeing life care financing is a very large opportunity. We were building that as a client you can have multiple cards, you could have a store card where the limit is different, whereas if you went into these multi-specialty hospitals, your limit is different. And he needs that limit to be to be different. We realized in June last year, our technology infrastructure did not allow for multi-carding infrastructure. In January that went live. Between April and May, to our clients we have sold 300,000 health cards as a company. Client gets much higher limit to be used only in those multi-specialty hospitals or for a set of elective procedures and pays Rs. 700. This is an example that I am giving you of cross-sell or mining our franchise by creating opportunities and products for our customers. There is a lot more work that we are doing, Bharat bhai, I mean I must just say that from a confidentiality standpoint, I would have to stop with this example. As we deliver more, we will talk more. I just want to say, we remain focused on it.

2Cr. EMI Cards

50k for phone, 10k for lifestyle but 4 lacs for health care makes sense, you got the customer financial needs covered 100%, one Stop SHOP. ring fencing, matters is Framework Robustness to reduce risks.

Same customer profile, different limits for different needs, model it at granular level according to scores and behavior patterns; induces element of over leveraging but yet if it is really dynamic enough to respond to behaviors in real time; e.g. bouncing trends, rates of use and payment history along with efficient collections and de-ratings; mapped to macro trends if needed at same time ensuring enough granularity and reducing overall per customer exposure along with continuous monitoring THIS CAN WORK effectively.

See, the rate of adoption, 6 months and you are ready to serve 4.2 Cr. customers with multiple cards facilities from a single card standpoint, I have designed and developed Appraisal /Origination systems for Multinational Financial Institutions; this speed at production level at this scale is AWESOME technical/functional work and shows level of decentralization, team collaboration and technical skills and capabilities and backed by the results they were able to roll out to 1.5% of EMI card base in just 2 months. Now this is a fee revenue with just the minuscule cost and scale effects are huge

Caught Napping!!  
wake up, need to be architecturally more thoughtful designing products

**Moderator:** Thank you. The next question is from the line of Prashant Kothari from Pictet. Please go ahead.

**Prashant Kothari:** Just one question from my side. I looked at this article from Economic Times suggesting that players like RBL Bank, SBI Cards, all of them are seeing better repayment rates in May compared to April. But your data is not suggesting that improvement kind of sequentially. Why do you think that is the case if this is the right data? Is it that the customers are treating banks versus non-banks differently? Is it like a moral hazard creeping in for non-banks?

**Rajeev Jain:** WALK THE TALK  
So, two things. We should not compare company disclosure with press disclosures. They are two different things, principally. Let a company disclose, and then I would agree. And it's not about let the bank disclose. Let me make that point first. When they disclose then I would compare. Whatever they have disclosed, as you can see on an overall moratorium basis, we are in line in most cases, given that most banks have very large corporate balance sheets, despite that we are looking only in line. Logically, Bajaj Finance is not in moratorium for Rs. 70,000 crores of its assets, of its assets sitting in banking system and so on. So, let's just compare presentation to presentation and disclosure to disclosure rather than press, that is one point second. Second order, however, when we look at data, we bank 18 million customers in a month. I look at it, you name the bank, we have very large statistical sample by each bank. From the, what you would call a best bank to what you would call the worst bank. Numbers stack up 2.5x to 2.7x across, they stack up very secularly and linearly, is all I would just say to you.

Personally, i haven't see HDB NPA numbers for this Q told anywhere, for the book they are running v/s the book BFAL is running on consumer finance HDB NPA are x times that of BFAL

not less by and standards

**Moderator:** Thank you. The next question is from the line of Ashish Sharma from Enam AMC. Please go ahead.

**Ashish Sharma:** Again, question on the credit cost, Rajeev. Just as we clarified that we are looking at 80% to 90% increase, that would be adjusting for the one-offs we have provided in FY '20, right, that would be the right way to interpret?

**Rajeev Jain:** In one-off, I will take the 900, I would not take the 392, Ashish, because there are blind spots in corners that miss it, right, which I may not be aware of. As a result of COVID-19 their situation can change. So, just at a design level, I would not take 392, it is in normal course of business, we gave money to those clients, they did go into difficulty, and as a result I made a wrong credit decision. 900 is COVID, rest is what I would call business as usual. And I am not trying to manage expectations or numbers. Humility and Honesty Full stop.

**Ashish Sharma:** And just on the moratorium data, would you have done some analysis in terms of split between salaried and self-employed? Or is the moratorium similar in both the segments?

**Rajeev Jain:** Structurally same. So, do salaried bounce less? Answer is yes. Are they 2.5x to 3x higher? Yes. Has the self-employed bounce more? Answer is yes. Are they also 2.5x to 3x higher from there? answer is yes. Look, we have cut it by bureau, we have cut it by salaried, we have cut it by self-employed, we have cut it by locations. You do know how after 13 years that we are data driven, we have reasonably sophisticated analytical infrastructure, information is available on the fly.

SAYS it ALL on how they manage and model business

It's pretty secular and linear. And for our size of franchise, we are unable to find any hidden corners. They are confident on their modelling

**Moderator:** Thank you. The next question is from the line of Ashutosh Garud from Ocean Dial. Please go ahead.

**Ashutosh Garud:** So, given the current data and two months of feedback you have got from your customers, and the segment across which we are present. how do you think lending as a habit and earning capacity is going to impact the disbursement growth which we are looking for, let's say, in the next three to four quarters? Because borrowing as a product itself can go for behavioral change. So in that aspect what are your thoughts as we speak?

**Rajeev Jain:** Behavioral change needs much longer than the event that has happened? The only behavioral change right now I am wondering, especially in Pune is, are people ready to go to work now? That's the biggest behavioral change I am asking myself. And it's as much in seriousness as in lighter vein. I think we will have greater clarity by July or August, given you need to provide consumers that much time.

**Ashutosh Garud:** So what kind of an impact it would have on the disbursement level which you would be planning to do in the next three to four quarters?

**Rajeev Jain:** I will be foolish if I said about what do we see disbursement growth outlook to be. Our current focus fundamentally is to ensure we restart our 2,134 branches. Number one. We augment our collections infrastructure, number two. In the interest of balance sheet protection and capital preservation, focus on managing risk and managing growth. And as we navigate through this, we will worry about investment growth.

**Moderator:** Thank you. The next question is from the line of Praful from Pinpoint Asset Management. Please go ahead.

**Praful:** I have just one question. In case the moratorium is extended from three to six months, do you think the probability of recovery goes down in that event? And any thoughts or plan if this is coming through? Thank you.

**Rajeev Jain:** Quite honestly, I find it a little foolish to make the point after 27 years of working in financial services industry, that I don't know. Behavioral risk, we had articulated in April 6th call as well, is tougher call. We will only know it as we get the ability to be able to reach customers, sit face to face and see their response. The truth is, if you look at the moratorium data, in the B2B business the bounce rate was 9.5% out of which 97% of them paid us. That is our experience over the last two years, before that 95%, before that 93%, before the 91%, that's our experience for the last 13 years. Now if things are to open, do we have the people who can sit in front of them and be able to engage and collect and then understand? Answer is yes. We will only know that as we get the flexibility to be able to get to work. I suspect that the moral hazard will not

just emerge as a single decision making pillar, the second order point of the impact of the of the economy on him or her will also have a bearing on this. So, it will be a combination rather than just pure moral hazard point that I have not paid you for two, I got two more, I won't pay you. I think it is not going to be as simple as that. It is a multivariate rather than a univariate conversation that pure moratorium makes a customer tip. It will be two, three combinations.

**Moderator:** Thank you. The next question is from line of Sameer Kulkarni from Auto Securities. Please go ahead.

**Sameer Kulkarni:** Sir, congrats on a good set of numbers in a difficult environment. Can you please highlight the key strategic initiatives you are taking to take BFL to the next level in post-COVID era?

**Rajeev Jain:** It's a fair question from an investor standpoint, as operating manager we are right now all hands on deck to manage the current environment. Do we have a strategic framework as a company which we do very rigorously in a disciplined manner every November? The answer is yes. Do we continue to remain anchored on that? The answer is yes. Were we significantly expanding our hiring in technology, analytics, geographic expansion? The answer is yes. However, at this point of time, we have put that on a little bit of backbench, intention is to manage balance sheet, preserve capital, manage OPEX. We are building this business with a 10 year view. We have done it for last 13, we are building this with next 10 year view. So plus/minus five, six months don't trouble me at all and doesn't trouble the management and the shareholders at all. We have to do what is the right thing at this point in time, which is to preserve capital and protect the balance sheet. Hopefully, I do hope that in six months' time when we are in more peace times, we can share greater colour on what do we intend to do. **definitely more firepower to come**

This is what you call an Owner's Mindset, not fretting away selling your shares on the next red blip on ticker tape, worrying about credit cost higher by blah blah bps for next 3 quarters and running away, this is where in great minds the compounding stories are written and what separate MEN from BOIIYSS

**Moderator:** Thank you. Next question is from the line of Gurpreet Arora from Aviva India. Please go ahead.

**Gurpreet Arora:** Two quick questions. What is the thought behind reducing PCR in the auto finance book, especially when the NPAs have risen substantially? And are we looking at changing the contours of doing this business? I mean, our share of the group business, I mean, is more than 50% now, so what is our thoughts on that? Second, majority of our liabilities is on fixed rate and we are carrying excess liquidity on the balance sheet also. So, how imperative it is for us to pass it on or refinance or basically, if you could guide us towards the future cost of funds. Thank you.

**Sandeep Jain:** On the auto finance piece, the provision coverage ratio, of course, the number is still strong 54%, given the fact that we have a strong reposition mechanism in two wheeler, three wheeler business. However, in case of two wheeler and three wheeler, what we have done is, cases which were in higher delinquency, we have chosen to write-off quickly rather than carrying it longer. There is a change in the accounting policy that we have done in the current quarter which had a small impact on the P&L but has ensured that we are not carrying the baggage of customers who are in long overdue in the balance sheet. So, there is that reason why the provisioning coverage ratio has come down marginally.

**Rajeev Jain:**

There is always a cost attached to the peace of mind if you choose to live with it

They are into auto-2,3W financing since they feel they get decent risk-adjusted returns over cycles and they underwrite and provision sufficiently for this segment

And clearly there is a drag, right. But thankfully, our liquidity model has been very strong. Look, since IL&FS, it's a different world for non-banks. Clearly things had improved and then you see what, again, COVID does to the risk aversion. If you look at our cost of funds for the quarter, it came in at, if you did apple-for-apple, the number would look like 8.76% with liquidity drag. If I knocked off the liquidity drag, it would look like 8.35%. So, clearly, are we seized of the fact that we are carrying a drag, but as far as we are concerned, preservation of the balance sheet, maintaining sufficient liquidity until we feel comfortable as a ALCO and as a company that we are in on safe ground remains the biggest priority. Now, AF, clearly as we have articulated since quarter two, the portfolio has been marked as red, you continue to see deterioration. We have tightened the underwriting norms in that business in the last two quarters. You should in the next two quarters start to see improvement in the portfolio. So, actions have been taken. Do we tend to remain captive? The answer is yes. Does it remain over cycles a reasonably profitable business? The answer is yes. Is the loss rate sustainable from a profitability modelling standpoint? The answer is yes. We have done that.

**Moderator:**

Thank you. The next question is from the line of Mayank Bukrediwalla from Franklin Templeton. Please go ahead.

**Mayank Bukrediwalla:**

I have a couple of questions. The first one was more specific on the collections, now bounce rates have gone up 2x, 3x. And as the book comes out of moratorium, we will again need more effort in terms of collections on that. So, the question is, could you give more colour on how you are ramping up the collection part of the business? One.

Second, what part of a business runs on a third-party collection capability? Are we increasing that part of the business as well? And how does your OPEX cut sort of guidance tie up with the need to actually ramp up collection capabilities in the near-term?

Only collect from their payrolls on SMEs, OK

**Rajeev Jain:**

Collection model is asset light, yet proprietary, is granular, mapped and monitored efficiently

We don't collect ourselves other than our SME business. Their the numbers are small and clients have to be dealt by the company rather than by outsourced staff. In rest of the company we do not collect on our own. We work with agency infrastructure that, in general, given our size and scale, works only for us. It's largely proprietary to us, but fully outsourced. They have been ramped up, so the entire collections model works grounds-up rather than top-down. Just to give you a texture, if you are in Bombay, Bombay for us as a company is divided into 48 different codes, that's more than the PIN codes Bombay has. Based on that we look at each code has how many defaults, how many bounce customers and based on that we determine staffing for that zone. And then the model builds up. Are we ready in terms of where we ought to have been on 20th of May? The answer is yes.

**Moderator:**

Thank you. The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

**Anand Laddha:**

Just two questions from my side. What is your average cost of deposit? when we interact with most of the players we have seen only good quality NBFCs are getting money at a very

significant and lower price. So how do you expect your cost of deposit or cost of fund to move for you for next one year?

Second, when the customer has taken a moratorium, have you interacted with customer, what could be the reason for the moratorium? Is it just the fear factor, is it the factor that it is available which we have taken despite the fact that moratorium has a cost? Are we reconnecting with our customers just to see if they can pay a part payment so that burden comes down for them?

**Rajeev Jain:**

Completely data driven unemotional mindset. Pure business to take rational decisions

So, are we tracking dispositions by millions of customers that we collect from? The answer is yes. Clearly, the anxiety is the biggest reason. As I said in my opening remarks that from 5th of April to 5th May, other than COVID and the resulting lockdown, nothing changed for the client. Salaried customer got his salary, self-employed customer had that much money. Clearly its the anxiety of unknown. I can still understand May deteriorating than April, and that deterioration is not significant. I could have still understood if the April was 20%, 30% higher hypothetically and May was 2x, then I would have said fundamentally that it's a result of deteriorating financial situation of the customer. I cannot say that today, that between 5th of March it was 9% and it became 25% on 5th of April. There is nothing is but anxiety at work. And these 9%, as I said earlier, 97% of these 9% used to pay, I just want to repeat that statistics just for information purposes. So that's really what the disposition at this point of time is coming to. Cost of funds will go down as our CP book, if you see in the presentation that the CP book used to be 9%, 10%. Today it is less than Rs. 2,000 crores. In the last five, seven days we raised some CP borrowing. Because, if my three months inflows are in a normal course are Rs. 20,000 crores, logically I should have Rs. 18,000 crores to Rs. 20,000 crores of CP book. I have less than Rs. 2,000 crores. So that colour if it goes back to the normal time, if you see March 2018, it was 8%. During this retail deposits have moved from 12% to 21%. So, clearly CP book has to move, given the nature of the balance sheet. That is really how one of the ways you will see our borrowing cost go down.

**Anand Laddha:**

Even banks have cut MCLR, so the borrowing cost should decline faster?

**Rajeev Jain:**

MCLR is beginning to play rapidly so the answer is yes, it should. But Anand, I must make just one important point, are we structurally seeing incremental borrowing go down? The answer is yes. Bank cost of borrowings, are they getting repriced, the answer is yes. Drag is eating most of it at this point in time. And that's a management call rather than a market view. So, when we feel comfortable, you will start to see rapid drop in our cost of funds.

**Moderator:**

Thank you. The next question is from the line of Roshan Chutkey from ICICI Prudential Mutual Fund. Please go ahead.

**Roshan Chutkey:**

Firstly, what is the tenor of this ECB borrowings and the full rate of the same?

- Rajeev Jain:** As you can see on Panel 40, it's 4% of the overall borrowing. I think the total number is around Rs. 5,200 crores. It's a three year program, fully hedged, both for principal and for interest. Timing is an important dimension when you borrowed.
- Sandeep Jain:** We raised \$75 million in April at 7.5% - 7.6%.
- Roshan Chutkey:** Okay. And as per the collection infrastructure, now these collection agencies that we employ which are completely proprietary agencies, are you seeing any signs of people losing job at the agency end or are we ensuring the staffing requirements are adequate and how are we handling that situation?
- Rajeev Jain:** We have ensured that we got to keep the fire on, despite the fact that overall efficiency levels because of inability to collect from clients have remained low. As I said earlier, in general, lots of these agencies work exclusively for us. We have ensured that we provide adequate support during this time to keep businesses going. And that should help us as overall economy opens up.
- Moderator:** Thank you. The next question is from the line of Kaitav Shah from Millennium Partners. Please go ahead.
- Kaitav Shah:** I just wanted to understand the mechanics of the moratorium interest that you account for from customers who have taken loan under subvention. What would be the interest rate that you would charge for them for the two months, three months moratorium?
- Rajeev Jain:** Interest rate is same interest rate that was contracted as part of the subvention pricing with the manufacturer. So, if you were at, let's say, anywhere between 21% and 22%, and that does get published to the customer in his statement of account, that is really what is charged.
- Kaitav Shah:** Okay. Fair enough. And any texture on where rural business could be in the next six months, 12 months? Or is it too early?
- Rajeev Jain:** It's too early is all I would say. Do we believe it will come back the fastest? Yes. To what degree? Tough to say. I must just add only one point, the way we classify rural for the investors is different from the way we look at internally. In general, our experience from a data standpoint is that 120 plus markets in India in general represent very similar behavior across most metrics. So, the company looks at even urban business as a prime business and as a growth business and as in-growth business looks at further deep as prime and further growth. To us, 120 plus market represents very similar outcomes. Do they have the highest likelihood of coming back quickly? The answer is yes. Same way, I must make a point, top 15 cities in India continue to be 30%, 40% of India from a consumption power standpoint.
- Moderator:** Thank you. The next question is from the line of Hiren Ved from Alchemy Capital. Please go ahead.

- Hiren Ved:** Congratulations on good numbers, given the circumstances. And also, top notch disclosure standards. My question is just, wherever you opened your branches, what has been the experience? Do you see you will see a initial spike because of pent up demand?
- Rajeev Jain:** Experience is that every market is today structurally run by the district collector or district magistrate. Do we see some spike when we open the market? Yes. But they don't represent demand. Is there suddenly a demand for more dishwashers? Answer is yes. Are people looking for more iPads? The answer is yes. But it is not structurally possible. If customer confidence comes back, demand may come back. I go back to my first panel, where we said economy was on the mend. We were clearly seeing it. The worst was Q3 October-November, things had turned the corner from December. And you were seeing that in IIP data, in various other data points that were emerging for January, February. We are 60 days into lockdown, longer we take longer will be the time for economy to come back. But no such expression, Hireen, if I give you a specific response on pent up demand. Confidence must be there.
- Hiren Ved:** Right. And my question is, I know you mentioned and I think probably that is the right thing to do, which is to focus on risk management and balance sheet more than growth. But again, I mean, there are various projections about where the GDP growth could be this year in terms of whether it's negative 1%, 2%, 4%, 5%, 10%, I don't know. I mean, everybody has their guess. But a more fundamental question is that given your current size and penetration, do you think that you will still be able to grow, given everything else being equal, even if the GDP contracts? Which means, will in your assessment be able to gain market share in the true sense of the term, because your balance sheet still relatively compared to large retail lenders like an HDFC Bank is far smaller.
- Rajeev Jain:** Are we 133 basis points of totally credit in India? That response remains yes. Do we remain pre-March 22 a growth oriented company? The answer is yes. Are we organized to capture opportunity? From a capital, liquidity, talent. Shareholders, low gross NPA and net NPA standpoint? the answer is yes. But the most important point I must make, Hireen, is, I think it is true that things will be slower for a while. What is going to make a big difference is whether do you have franchise to do something with. If you have a franchise and you have a cultural orientation to be able to do work with the franchise, one should do relatively better. I think is the way I am seeing it from a short-term standpoint. Medium-term, we are a growth company. And we would like to continue to grow our share of total credit in India.
- Sandeep Jain:** Just two data points. I think somebody asked a question on deposits. We have seen Rs. 200 crores of increment in retail deposits in the month of April, and Rs. 1,000 crores of pre-maturities on the corporate side of the deposit book. Secondly, in terms of ECB borrowing that we have taken in the month of April was \$ 75 million and came in at 7.2% fully loaded. *7.2% fully loaded, fully hedged*
- Moderator:** Thank you. Ladies and gentlemen, due to time constraint, that was the last question. I now end the conference over to Mr. Karan Singh for closing comments.

**Karan Singh:** On behalf of JM Financial, I would like to thank Mr. Rajeev Jain and the senior management of Bajaj Finance and all the participants for joining us on the call today. Thank you and stay safe.

**Rajeev Jain:** Thank you. Good night. Sorry for doing this called so late. Sandeep and I are happy to engage one on one wherever required. Thank you. Good night.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of JM Financial, that concludes this conference. Thank you all for joining us. And you may now disconnect your lines.