



“Bajaj Finance Limited Q3 FY-22 Earnings Conference Call”

January 18, 2022



MANAGEMENT: **MR. RAJEEV JAIN – MANAGING DIRECTOR, BAJAJ FINANCE LIMITED**
MR. SANDEEP JAIN – CFO, BAJAJ FINANCE LIMITED
SENIOR MANAGEMENT TEAM – BAJAJ FINANCE LIMITED AND ITS SUBSIDIARIES

MODERATOR: **MR. ANUJ SINGLA – BANK OF AMERICA SECURITIES**



Moderator:

Ladies and gentlemen this call is not for media representatives or Bank of America investment bankers or commercial bankers, including corporate and commercial FX. All such individuals are instructed to disconnect now. A replay will be available for Bank of America investment bankers and commercial bankers, including corporate and commercial FX. The replay is not available to the media. Thank you.

Ladies and gentlemen good day and welcome to the Bajaj Finance Limited Q3 FY22 Earnings Conference Call. This call will be recorded and recording will be made public by the company pursuant to its regulatory obligations. Certain personal information such as your name and organization maybe asked during the call. If you do not wish for it to be disclosed, please immediately discontinue this call.

As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone.

I now hand the conference over to Mr. Anuj Singla from Bank of America Securities. Thank you and over to you Mr. Singla.

Anuj Singla:

Thank you Faizaan. Good evening, everyone. This is Anuj Singla from Bank of America Securities. Thank you very much for joining us for the Bajaj Finance Earnings Call to discuss Quarter 3 FY22 results. To discuss the results, I am pleased to welcome Mr. Rajeev Jain – Managing Director, Mr. Sandeep Jain – our CFO and other senior members of the management team. Thank you very much for giving us the opportunity to host you sir. I now invite Mr. Rajeev Jain to take us through the key financial highlights for the quarter, post which we will open the floor for Q&A. With that over to you Rajeev sir.

Rajeev Jain:

Thank you Anuj, thank you BOFA team. A very good evening to all of you. At the outset wish you all a very Happy New Year and hope this year is better than the previous 2 years and we see end of pandemic and going into endemic. I'll be referring to the Q3 FY22 investor presentation that we have uploaded on the investor section of our website. So, let's just quickly go through that.

Let's go to panel four; overall a very good quarter for the company I would say. Across the board improvement in all metrics that I'll just take you through very quickly. The company is quite well-prepared to navigate wave 3 given strong management overlay provisions that we've created and significantly improved Stage-2 and Stage-3 assets of the company. Overall, I would say a pretty good quarter. Business transformation Phase-1 is delivered and execution of Phase-2 has already been started.

*Q3 FY22
Jain to
provide
(650 touchpoints)*

*1083 Cr
-1600 Cr
(3100 Cr)*

Now very quickly we'll go through the numbers. My presentation is broken into two parts. I intend to take 20 odd minutes, 10 minutes on numbers, 10 minutes on business transformation and then open the forum for questions to be responded between me and Sandeep Jain. Balance sheet 181,000 crores, year-on-year growth of 26%, OPEX to NIM has started to come closer to

1.81 L Cr

At 26% top line growth if can reduce by 100-200bps impact on margin on corporate } Best To Come
 } Despite tech investments / hirings on full time

Bajaj Finance Limited
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our guidance frame of 32%-33%, came in at 34.7%. PAT came in at 2,125 crores, ROE on a quarterly basis came in at 5.3%, our net NPA came in at 0.78%. All numbers that are in line with what it used to be pre-COVID. Some are better than pre-COVID. If pandemic becomes endemic, we are headed to hopefully strong few years as you go ahead from here.

1/2% of population
 ↳ State planning of some for a stronger / developed layer to grow
 ↳ 15% / 180 cr pop
 ↳ 5.5 cr (curr) + 90 L / annum x 10 yrs → 9 cr.
 ↳ These headroom for consistency in quality growth

Let's just go through the quarter; panel 5, year-on-year, that's why I did not compare profits are up 85%. I did not compare them because they're not comparable. Highest ever AUM growth, in a quarter we have never clocked 14,700 crores. That was a core AUM growth that we clocked taking our balance sheet to 1,81,000 crores. Overall AUM composition also remained very steady. Later in the presentation we can have a look at it, between 1% plus minus. Other than the auto finance business which is part of our remedial frame, its contribution has been going

↳ Shrinking in immaturity
 ↳ Even here on reduced AUM collection obli. improved signif.

down. Other all asset compositions have remained very steady. So far in January given though we are in wave 3, I thought I will just use this opportunity to provide some update a color. There is no impact of Omicron at this point of time on the business momentum and things at this juncture in the first 17-18 days of the month. Our business momentum remains steady. If there is no disruption or increased disruption as a result of wave 3, hopefully full year AUM should be quite strong. We booked 7.44 million loans, year-on-year as I said not comparable. Customer franchise 55.36 million as the Phase-1 or of Phase-1 of business transformation has gone live and when we look at the new customer origination, we do believe that as a result of this from 7 to 8 million guidance that we had given to the street for many years, we think that guidance gets up to 8 to 9 million. As the infrastructure becomes more and more robust, we continue to deliver more and more journeys, hopefully that number can someday look at 10 million kind of number.

↳ Can u provide honestly / prudently to fully P&L passed on B.S

Business Process Transformation
 ↳ Tech Stack Owning - Advantage
 ↳ What if Run Rate can further improve
 ↳ The impact it can have on X-Sell, Fee Income Traditionally X-Sell growth has out-paced new acquisition
 ↳ higher end of guidance becomes lower end
 ↳ ↳ Bear Camp Soon

But this point of time we believe that for the next 6 to 9 months horizon, it should look more like 8 to 9 million per year run rate rather than 7 to 8 million run rate. Cross-sell franchise is 31.26 million, year-on-year growth is 24%, geographic footprint added 94 locations in the quarter. We are now at 3423 locations and a 128,000 plus distribution points. Competitive intensity across products has increased rapidly. Post wave 2 mispricing is more rampant. So far as a company we've managed to protect our margin profile across businesses but normally that's one of the things that I'm not personally happy with because in retail businesses it gets followed by credit cost. But it's quite intense to competitive activities what I would say. Interest income reversal going back closer to P&L, for Q3 was 241 crores. We had guided it should come back 180 to 200 crores by Q4. We are holding onto the guidance. That's really where it will go through. It's very close. Last year same time it was 450 crores, this year same time it is 241 crores and by next quarter if there's no wave 3 then it should go back to 180 to 200 crores. Cost of funds came to 6.72% providing us reasonable lift we're originating as much longer assets as liability. We are continuing to make the liability profile longer, raised 2700 odd crores in NCDs in 3 years and above, in fixed interest NCDs, of that 2100 came in 10-year money. I think the last two quarters we have raised 5000 odd crores. In the last two quarters we have raised close to 5000 odd crores in 10-year money. In first 14 years we didn't raise that kind of money altogether. Liquidity buffer came in at 14,400 crores, should normalize to 11,000 crores. But between choosing long-term borrowings and liquidity buffer, choice is quite clear we will choose long-term borrowings as a company.

↳ Running out 1 cr / custom / year
 ↳ Imagine strength of algos & models with this data set who can compete
 ↳ MOAT getting stronger
 ↳ Men from Boys

↳ Non prudent will fall
 ↳ ↳ Good for BFLZ
 ↳ Imp by term perspective

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↳ Interest Rate bound to rise over med / long term

↳ Top up with good Prop. for profitability
 ↳ Time Tuned Finance
 ↳ Created for growth
 ↳ ALM
 ↳ BENEFITH
 ↳ nimble / Data Driven Risk averse

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↳ Add. 3400 crs per release for qv. 2022

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Purpose of every action / plan.
Account Equity Deposit
Bank
On ground rejection of Corporate deposits
Saying NO if not meet
CULTURE

Liability Profile
Diversification
20% of Borrow
20% of Retail

Panel 6, very quickly over to some more detail; deposit book just a tad below 30,500 crores. 20% of total borrowing came in at 69-31 in terms of mixed between retail and corporate. OPEX to NIM 34.7%. We expect it to normalize between 33% and 34% by Q4. Continue to invest in teams and technology for business transformation. I'll cover that in just next 2-3 slides. So, we continue to invest as we focus on delivering the near-term quarterly profitability. Loan losses and in provision took 1051 crores. We've increased management overlay provisions in Q3 from 832 crores to 1083 crores to protect ourselves or the balance sheet from probable losses that may arise out of wave 3. Wave 3 clarity on impact would only emerge after January default rates, January collection efficiency, February default rates, and February collection efficiencies emerge. That's I would say 60 days away or 45 days away, even from a stress testing standpoint. But we thought its prudent to take a management view and have carried 250 crores additional provision in Q3 against third wave. Debt management efficiencies across products improved further. We are looking at them as ever best collection efficiencies or debt management efficiencies that across by line of business we've seen in the last 14-15 years. Bounce rate for July across products are in line with December. At least one metric out of four that determines fundamentally what losses could look like is at least out of the way. We'll wait for other three to emerge before taking a view on what could arise out of wave 3.

Data Driven
Every data point / every juncture / data / data / data
Framework
Decision
Action
Execution
Feedback
data drives decisions at real time. | NO complacency

Having said that as I said we want to continue to remain conservative given continued uncertainty of waves. We're in third wave. We might have a fourth wave; over the last 2 years I now worry about the month of June. The last two Junes have been terrible. By June if we are endemic then I would say we are endemic. As a measure of prudence and given strong profitability we've decided to carry sufficient overlays and we're forecasting that on a full-year basis instead of 4300 to 4500 crores of loan losses provisions we'll carry 4800 to 5000 crores. Of this we have already taken 4100 in the three quarters. Depending on how it plays out the fourth quarter we may take the balance.

Prudent+ BIS / way in conduct and benefit

Gross NPA, net NPA improved sequentially and of course, year-on-year significantly came in at 1.73 and 0.78 percent. They are very close to being back to pre-COVID levels and they are very close to where we have been historically for the last 5-7 years prior to COVID. So came in at 1.73 and 0.78. The point 16; RBI had changed the NPA classification requirement for NBFCs. There was no impact of the same on gross NPA and net NPA for us as a company. Overall Stage-2 went down actually by 600 crores. As you can see from the numbers, overall Stage-3 went down by 1000 crores. So, between Stage-2 and Stage-3, the numbers went down by 1600 odd crores.

Panel 7, I'm down to the last two panels quickly; portfolio quality rather than taking you through the nine panels which are appended in the slide, later I thought I will cover it in executive summary. From a management assurance standpoint, seven portfolios are green, two portfolios are yellow. Actually, AF portfolio has moved from red to yellow. It used to be 86% current business. It is close to 83% current business now if all goes well and despite the fact that portfolio is reduced by 4000 odd crores in last 2 years. So, it's a defining asset base on which there is improvement. I've stamped as management insurance, the home loans as yellow because it came

in at 99.1% versus 99.5% that it used to be historically at a pre-COVID levels. Otherwise, I could easily argue even home loan is green. So, 8 out of 9 are fundamentally green and AF being yellow. Consolidated post-tax profit grew 85%. As I said year-on-year not comparable but 2125 crores is the highest ever profit that we have generated in any quarter. Capital adequacy pretty strong, came in at 27%, Tier I itself is 24.5%. As I said in Q3 if you look at our long-term guidance metrics that we've guided the street on, we've actually met all of them on a quarterly basis. So, if pandemic becomes endemic and given the state of portfolio that we're in and with the business transformation going live I would say I'm quite excited about the next fiscal.

Now BHFL balance sheet; jumping to the subsidiaries, grew 39% to a tad below 50,000 crores, at 49,203 crores, capital adequacy was 19.5%. We would like to run that business at 7.5 times kind of leverage. BHFL delivered a profit of 185 crores, PAT of 185 crores, a growth of 87%. BFL board today as a result of 7.5 times to 8 times kind of leverage thought process that we have, has approved infusing 2,500 crores of capital in BHFL as a rights issue from BFL. BFSL acquired 65,000 new customers. Just to recall we were acquiring 110,000 customers in BFSL in the previous quarter sequentially. We decided to focus on activation and quality rather than quantity and the activation rates now which used to be 22%-23% in Q3 as a result are now looking at 43%-44%. That's the direction that we want to take. We do want to grow BFSL. BFSL came in at a PAT 7 crores. The BFL board has also approved infusion of 400 crores equity share capital as a rights issue in BFSL as well today. So, overall we have committed 2900 crores of capital in today's board meeting into both the subsidiaries as a company. That's really on the financials.

As I said overall good quarter for the company. That's probably being polite but we're quite happy with the progress company has made in coming out wave 2. What I do want to spend the next 10 minutes on is update on business transformation. I have 4-5 slides that I will quickly cover. Two of them are busy. I don't intend to cover them but I will just take you through really quickly on them. Just before that, various conversations, various people have various views on what we are creating and so on and so forth. I thought I will just simplify and clarify our stance on what we are doing this business transformation for. As a company we have a very clear view that we are a consumer financial services business, a diversified consumer financial services business that's what we are. We believe that the purpose of any business transformation is a means to an end. It should add to the core business result in stronger growth momentum or so be the customer experience or better cross sell or should lower risk and improve operating efficiencies. That's really the overall objective of any business transformation should be and we are pursuing this whole agenda of business transformation singularly with our objective. I thought I will just clarify my stand very clearly as management to make that point.

On business transformation, it's also clear. I'm sure you know, we're all learned people. We have become learned over the last 18 months. We are very clear, it takes time, team and technology. We are increasingly super clear about that it needs all these three. It's been 15 months. We've started to provide quarterly update to the street. Since we've started a Phase-1 of business transformation and I thought it would be an appropriate moment for me to share an update to

Appears easy & easy from cur. pos. but in after a lot of hard work (skilled) & experience

No new firm stock with measure

40bps | No hesitation to move green to yellow | Date driven | Culture fully discounted P82 | Ought to be in watchlist → face there

CULTURE || NO COMPLACENCY || HARD WORK & HONESTY. || Transformation journey conceived. || Front loading losses / provisions overhang | Missed Quarterly EPS

⊕ Data driven decisioning

Building on Sust. differentiating. Slowly / Patience = DARING HORSE in next 2-3 yrs. BFSL scales up exorbitantly fast

people run early at 9-10 x leverage

51K cr raised last Q. 3.4K cr liquid. to be released next Q.

Character, Culture, Delegation, Board Support, Risk & Innovation } Next logical VISION } Transformation of Core Process / Survival / Tech Stack

TRAITS we can observe & approach

what's gone live and what's going to go live in Phase-2. Now due to wave 2 it got delayed by 3 months, it should have logically gone live in October. It went live in December. Phase 1 is now gone live with a staggered release methodology. Phase 1 had three sprints. Sprint one is now live for 100% of the customers, sprint two and three together are live for now 10% of the customers. It will go live for 100% of the customers between 24th, 26th and 30th of the month. We will sunset over a period of 15 days from there, the 15-30 days depending on how many customers move, the older app infrastructure, the point that Kurush here is making is we will have to go by if customer does not want to upgrade as a customer may not want to push force upgrade. So that's a point well taken Kurush, without you stating it. But that will be our intention because we do believe new infrastructure brings significantly larger infrastructure and much better customer experience for customer.

Next two slides, I will demystify the entire new digital platform and the two slides from there on I will cover what we will do in Phase-2. I think that's the purpose of this conversation. I'm not going to go through this panel. There are two panels on what I would call 15 components. The way you should read it is that on panel number, in this panel the verticals, the first column read them as components at a design level and the rest of them you read as features. Overall, the new digital platform has 15 components. Just go to the next slide and has 55 odd features which is mentioned on this panel below. Overall, 15 components and 55 features. Let's just go back for a moment. This is really on any of you as customer or if you came in as a prospect would experience. You would experience the entire payment stack that you see on top. You would experience 27,000 retailers through the no cost EMI marketplace which attracted 45 million visits in Q3 alone. It's already 250 million run rate asset. The insurance marketplace which has gone live has nine insurance companies and 800 odd products, investment marketplace the entire mutual fund infrastructure through BSEs are sifting there, health RX which is for a customer are proprietary health infrastructure and BFSL app. These are proprietary app ecosystems. You would lead journeys as what we call three in one financial services. You would experience earn and burn, earn for payment transactions, burn on convert to cash, bill payment and voucher. You press a button and say call me back in any of the places, you would get a call anywhere between 5 and 15 minutes depending on which of the 3400 cities you press a button from. The productivity apps that are not visible to the customer but that's really what integrates voice and marketing cloud infrastructure. You would see all these services including calculators and profile update and so on and so forth. You would see 31 apps in app across travel, entertainment, food, utility, shopping at this point in time.

JWOTA Mar -
+ Affiliates

Data Points?
Models are
SW 2.0

Models
Customer Journeys
Data Vendors

HEART of
Busc. Transformation

Angul Super App
Franchisee

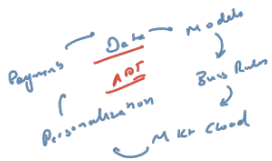
Cost of Data/Behavior acquisition & incr. velocity

ROUTE

Utilities/food/health/ Eyesalls | PULL

[Next stage features roll out & Models accumulation seeding ground]

You would experience the featured search and content search as a customer which we think is a hero frame because it's right on the homepage. You would be able to see as I said NPS, social share, wish list and so on and so forth, personalization nudges notification. Data you will not see as a customer but we would take consent from you. Depending on based on consent it runs business rule engines. This platform is integrated with 400 plus digital APIs to make things happen. The next two are not really relevant for you but without a very scalable core platform it won't work. I mentioned in the past quarters, three-four quarters ago that fundamentally restructuring the core took the most amount of time other than focusing on a good UI-UX.



↳ Re-imagining / re-drawing business processes & moving parts for frictionless experience, videos, Risk & efficiencies at Scale

[Franchise] + [Risk mgmt] + [Out bin] + [Collateral] } Process + People + Technology

100% opp down

Restacking the core is an important dimension to being able to deliver at scale what we intend to deliver. Also meant investing in core infrastructure like high availability infrastructure and much more deeper investments in disaster recovery etc. What we have done is, because there's a functional construct, is 600 odd lateral and fresh hire; we've got added to be able to deliver this over the last 15 odd months. This is really what you will see as I said between 24th and 26th January as Google allows us to transition 100% of the customers and as we see stabilization of the platform that's really all of you either as prospect or new customer would experience.

What we are focused on is what I would call Phase-1; it was focused on creating a strong stable and a scalable foundation for us to build the overall business transformation for the next few years. What Phase-2 will fundamentally do is to focus on from existing customers to go to new Bajaj customer journeys, would introduce a lot new features and functionalities. Would augment current features head and nuance journeys for our existing customers, taking them closer and closer to DIY. At the end of the day that's really what will transition from processes to journey is really where we are reorganizing our thought process and company over the last 15-18 months. It's a journey and we will continue to stay there, going after journeys. What you see as yellow is really what will come in over a period of 8 to 9 months. On this panel I'm not going to spend time. On this panel yellow and the next panel yellows, these are the new stacks and the features. Components are not going to change. But the features are going to change. We'll transition from 15 stacks and 55 odd features to 15 stacks and 72 odd features and components. The only difference versus what we did Phase-1 and Phase-2 is that consumers will not have to wait for 8 months to experience the yellows that I talked to you about because as I said we have focused on building a stable and scalable infrastructure. As that gets delivered every 3 months we'll release sprints. Actually, we'll release 2 months but since we just started work on Phase-2, this time around we will do it in 3 months. This will get delivered over four sprints between July and October-November is really how we are looking at this frame to be. During this period as I said purpose of business transformation is a longer-term frame. We continue to remain committed to deliver our long-term guidance metrics as a company. This is being created with a 5-to-7-year view.

Shrimper / Shrimper / Shrimper

Process itself is a long journey which will be decided by real time data analysis

Rollout / feature velocity will increase from here

RIGHT TO WIN!

Investment that is needed by any org within line of bus to grow at this pace for next 5-7 yrs

Let me simplify the conversation. This will help the company not on quarterly outcomes. This will help the company get closer and closer to customer. As I said deliver the objective of business transformation which is to either reduce costs, improve velocity, improve growth momentum, reduce risk and improve customer experience. So that's really and it's not new as you will see some of the expression here as I said in the AGM that our agenda is only presence. So physically we continue to mobilize that we are in 3400 cities, digital platform, Phase-1 has gone live, 16.5 million customers currently sit on the old platform, 6 million now sit in the new platform, 0.5 million new customers we acquired through EMI card in the third quarter alone. They are not just new customers; of the 1.3 million CIF they give 240,000 loans. We have a 30% conversion rate which is a great number I would say in terms of activation. I already talked about 45 million EMI store visit. As Phase-1 goes live these panels will get filled more and more, it already has 28,000 SKUs and 24,000 merchants. The point of sales transformation which allows good customers to apply for a PL right at the point of sale, we have 600 crores of personal loans

Customers, SKUs, Merchants, Physical POS, Volumes are outstanding

- How many are doing this?
- How many have franchise to justify these costs?
- How many are carrying operations?
- How many act on dots?

Journeys, Borrower, Models | ① Speed of Decision | ② Accuracy of Decision in terms of Risk



in Q3 alone and 91,500 credit cards. Payments we have 5 million, just a tad below 5 million wallet now. We added 2.6 million wallets in Q3 alone. The P2M infrastructure which you saw as a yellow in Phase-2 will go live in February. We are not waiting for that to happen in Phase-2. We are waiting for regulatory approvals to move ahead further on BBPOU.

The team onboarding as I showed, we have already hired for the payments business 120 people which will go to 400 people by June. So that's really the quarter gone by, that's really the business transformation update and we are at it as management to chew gum while walking. That's the quarter. 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 Kunal Shah from ICICI securities.

Kunal Shah: Firstly, just want to assess the adoption. How should we actually gauge the adoption? Maybe there are some metrics which you have highlighted in terms of people who were there on the consumer and how many, they have been onboarded onto the new app. So maybe it's 16.5 or 6. In that in terms of maybe when you were making the remarks you said that many of them would not like to migrate and there will be no force upon them. If you can highlight out of the total customer base, what is the final endeavor which we are looking at and by what time we will be seeing it? As and when the new features get introduced how do we convey it to the customers that this is getting launched, this is what has happened? Because I think insurance and something was not available. It is coming through, now whatever comes from 24th to 26th, so how do we keep on intimating to the customers and improve the adoption out there?

Rajeev Jain: So, there are 2-3 large engines that'll drive adoption. You walk into the point of sale. Your agreement is now on it, from 1st of February. So, any new customer or existing customer comes on board he has to go and do OTP and do an agreement there in the app. I mean our entire ARU infrastructure is now driving this app because at the end of the day if I am trying to do activation and response units which do largest amount of communication with prospects and with existing customers, all of it is driving it towards the new digital platform. So, adoption will be reasonably rapid and all channels in the company will go towards it. That's first part of the conversation because all journeys will get weaved in there. Whether it's a personal loan or it's a point of sale, the mobile receipt if you're a defaulting customer, you want to see the residual, you instantly see it there. Wherever you touch us as a customer the connect will be through the app as you move. All service touch points will be through the app. So service, collections, sales all through the app, so that's one part of the conversation. Second part is as Phase-2 goes live; we think we have already begun to track a set of internal metrics. We'll start to publish them from either let's say fourth quarter next year onwards. We're already tracking a set of what we would call 21 metrics that determine effective app ecosystem. Just as it gets matured, we will start to share that as well. We are a transparent company but it must be reach a particular maturity before we feel comfortable starting to share. So, wait for three more quarters.

Memos
21
ARU/POS
APP 10PP
Journey &
X-sell
Services

①
3-4% of having wide physical reach x-cannal towns

②
nothing in the air
Everything measured/gauged
③ Transparency / Culture
Decision

Kunal Shah: And overall, in terms of the transition, so if I'm an existing customer but there are more repeat transactions which are happening but maybe through collections or some other servicing

whichever is happening any which ways, I'll keep on migrating to the new app and at least I will connect with it.

Rajeev Jain:

It's an important conversation Kunal and if you go to the functional architecture that we've actually published, number one. Number two, the conversation that we did with the community on taking on payments as a large frame, the first step that you will see, we are very clear that the engagement would happen through that. That's why you see on top just if you go there. On top, you see UPI, PPI, EMI card, BBPS. BBPS is now already clocking 400,000 odd transactions in a month. We will start to see and we are just getting our feet wet. Let me just make that point very clear. We've been focused on as I said building a strong, stable and scalable foundation. We have a large franchise, accelerating it and we have a large profit pool, accelerating it is not going to take too much effort.

payments Kavo

Moderator:

The next question is from the line of Abhishek Murarka from HSBC.

Abhishek Murarka:

Two questions, the first is on OPEX. Have you got a budget for what you will be offering as cash backs or incentives on the app? Are you also seeing, you've hired about 600 people, you will be hiring another 800 as per your presentation? Are you seeing a lot of wage inflation there and overall, how should we think about OPEX in terms of cost to income given these two things in the background? That's one. I'll come back to the second question.

Rajeev Jain:

Data based actions.

We'll guide, in case there is a change we do believe as I said we'll continue to chew gum while walking. We remain committed to deliver a 33% odd kind of OPEX to NIM ratios that we were at pre-COVID levels. Over time Abhishek as velocity grows, as you become more efficient, the number will go down or could go down. I wouldn't say will go down, could go down. But the 33% number or 32-33-34, I'm not fixated on the number. I'm fixating on the tradeline that we remain committed to delivering profitability while investing in our future.

Abhishek Murarka:

Basically, what you're saying is despite all these efforts of investing in people and also through the app on cashback and all that it's not going to skew the cost to income ratio from that level 33 to 34-35 whatever, lower 30s?

Rajeev Jain:

No, yes. When I said no

Abhishek Murarka:

The question I had is basically on the provision guidance. Now we have gone up to 48 to 50 billion and you said you are trying to be conservative. But on the other side, you have also said that the impact of wave 3 is not really as much as wave 1, wave 2. So why have we really increased this guidance?

Rajeev Jain:

As I said we remain in a uncertain zone. We don't want credit cost drag; P&L drag the overall momentum. Let me simplify the conversation. We like to run a fully costed P&L as a company and that's really what we have done for the last 14-15 years and we want to remain conservative. As I said, this is management overlay. If it doesn't occur which is for the first 17 days is looking like and by June, we don't have a fourth wave, this is available to be rolled back because let me

to offset momentum

in fact further complicate the conversation. The gross NPA, net NPA is back to pre-COVID levels. The Stage 2, Stage 3 has its adjusted for balance sheet are back to pre-COVID levels. We are very comfortable on all these four metrics but the uncertainty is what is causing us as management to take a conservative view. That's all.

Prudent | P&L accounted / Gated BS | Momentum undetected

Moderator: The next question is from the line of Shubhanshu Mishra from Systematix.

Shubhanshu Mishra: So, two questions. First is slightly quantitative. If you can define what is the average age income CIBIL score of the new to Bajaj customer? How many of them are (+700)? The second is, if you can also list out the concentration of the distribution reach on slide #47. We have given out the consumer durable, a digital product store, lifestyle retail stores. What are the Top 1000 or Top 500 stores in each category cater towards either in terms of volumes or value to the AUM? And last question is qualitative. When do we plan to become a bank or apply to become a bank?

Rajeev Jain: Firstly, the TG. Fundamentally look at a design level, we focus on who we want to do business with, in the EMI card space. We target essentially those prospects that we intend to onboard as a customer. That's Level 1 point that I must make. Level 2, as a result they have to be (+700) or (+720) or they can be zero, (-1) so that we are clear about it. Normally we see from a trendline standpoint as I said we acquire 4,92,000 customers in Q3 that means 1,60,000 odd customers in EMI Card platform every month. 80%-85% of the customers are (+720) from a bureau standpoint and between 12% and 15% could be zero, (-1). But even those zero, (-1) are ones that we want to target. That's point #2. TG remains between 32 to 45. That's really the TG that comes through the board because the moment you want 85% of them to be bureau tested naturally in general you are going to find that TG. We find that TG above which is 30 TG is about building a long-term business. That's third question. Fourth, contribution by Top? Top 20%, Top 20 dealers would have 20% market share. You know that's not changed. It's also not changed because we have kept going deep. So, if you take a Top 20 city view that number will be very different but the moment you take a 3423 cities view, the number has been at 20% now for a long time. Of course, the Top 20 also kept going down, the Top 20 some of them have got down to 1500 kind of city. Not 1500, they have 2000 stores so it could be down to so number would be 20%. It's reasonably distributed both geographically and from a concentration of retailer contribution. Bank, no there's no plan. We will definitely update before we decide. I think at this point in time there is no such plan and that's up for, RBI came out with their guidelines, it's up for the shareholders to decide and we as management will follow what shareholders decide.

*Own Model
Other approach
on top of
bureau
score*

Moderator: The next question is from the line of Prakhar Agarwal from Edelweiss.

Prakhar Agarwal: Yes, I was talking more from a Home loan perspective. What makes you classify that as yellow, which is first? Second, in terms of customer acquisition? You said that from a normalized level we will probably may go to 8 to 10 million over a period of time. What exactly is the architect that gives you an increased levers in terms of higher customer acquisition rate? Lastly, in terms of when you make a point that competitive intensity in few of these operating segments has risen, where exactly have you seen this where these players have exactly risen? And do you see that profitability in few of the segments also getting curtailed because of higher competition

because bounce rate is what you said that has stagnated in January or probably it's probably similar in December. Do you see pressure points in profitability in few of the segments wherein you are seeing higher competition?

Rajeev Jain:

Handwritten notes:

Home loan → Risk
 How to Make Money {
 1) Raise an low rate
 2) Raise long
 3) Minimize Risk
 4) Spread x
 other. Carry
 other are high
 risk but manage
 cost. Rate used
 5) Acquire more
 & X-side
 6) create a
 pull of skew/
 offerings

M.S.W./Boys

Omni with
 - Time tested franchise
 - Risk process
 & Robust models
 - Deliver at velocity
 - Scale exp.
 - No friction

Prakhar Agarwal:

So, look it's visible all over, you are able to get an auto loan at 7.5%, you are able to get home loan at 6.6%. G-sec is at 6.10, G-sec is at 6.6, home loan we are at 6.3. So that's competitive intensity for you. Personal loans are going at 10.5%-11% for best customers. To my mind, personally, the pricing does not adjust for risk. I mean now and I could be wrong and we are clear that there are, based on PPM frames, there is a red line to where we can go on product to product from a pricing standpoint. That's really the response to the second point, it's all around us. Try and apply for a personal loan, you can get it at 11%, salaried personal loan, professional doctors are getting money at 14%. It's not risk adjusted in my mind. Home loan if you see I've put up the Panel in Panel #58. Logically should be 99.25 kind of number in my assessment and that's why yellow. It's not a red in any given manner. It's just as you see the number to be here, to my mind it should be a 99.25 kind of number. As it gets there, we will stamp it as green. It does not reflect ADT rating credit situation given the nature of the business but that's a management assurances assessment. Were these the two questions Prakhar?

Just last one was on customer acquisition that you said that 8 to 10 is what we're targeting. What is the underlying architect there which you see that over a period of time you will be able to ramp that customer acquisition and a normalized level of 6 to 8?

Rajeev Jain:

I think as a digital platform becomes more and more robust, as the journeys become more and more integrated, you will see that happen. I would only just add one more dimension since we are pushing this conversation is that, this is only an app conversation. There's eventually even whether you came on an app or on web, the experience should be same. It should be same, not even similar. As both the platforms are created, are optimized, deliver identical journeys, I am quite excited and do believe that the momentum would be strong. That's our assessment as management.

Moderator:

The next question is from the line of Kuntal Shah from Oaklane Capital.

Kuntal Shah:

Just one request that this presentation was just released 5 minutes before the call and I think so most of us would not have got time to it. If the presentation were to refer to Kubernetes and Data Lake, I can assure you 99% of the people on this call, couldn't even understand it.

Rajeev Jain:

I don't have a view on that. We are supposed to provide update Kuntal. Our board meeting was finished at 5, it went on a little longer. As you can see, we have just committed large capital. It needs explanation to the board and to commit such large amounts capital to subsidiaries. You can imagine our state. We have been at it since morning and we just at 7 o'clock also answering questions.

Kuntal Shah:

May be a call next day will help. My two questions are, you mentioned there are going to be almost (+600) APIs. APIs can enable even third-party to offer solutions on your platform

provided you are not willing to or you don't want to. Are you planning to make it an open kind of a marketplace where they can also mutually benefit from your reach and your customer base and you could do a revenue share with them? I saw a marketplace of Bajaj two-wheeler so it means you have moved beyond Bajaj ecosystem is the?

Rajeev Jain:

We'll be launching a two-wheeler financing for non-captive customers between 1st of June 1st to 1st of July. In fact, we would have launched it if not for the marketplace. Let me make one important point that as we deliver Phase 2 or any new large product, the whole approach to launching products, conceptualization to delivery, we would not do anything that is not available on day zero to customers on the digital platform. Technically we could have gone live on 1st of February with a two-wheeler financing business. We have held it back for 5 months because we want SKUs across mechanical and electric to be visible and available to customers to be able to compare and shop. That's one part and two as I said on day zero, we would not launch without being on the digital platform. Your second question Kuntal was, APIization of the fact that...so the In-App programs are mostly APIs. API is at Level 1, over time. As we see which piece is generating velocity, we will keep integrating tighter. There's a lot of conversation that goes around saying people are building Super-app. Super-apps are not created, they get created because that's what consumer asks in search and then you deepen journeys. At this point of time, you see 31 of them, they are all APIs but they are Level 1 APIs. They will get to Level 2, Level 3 and so on and so forth wherever we see velocity. 31 is going to 46 or 47 whatever you said 51, 50. Those are In-App programs are built as APIs but let me caution built as Level 1 APIs. They will get to Level 2, Level 3. Answering your second order question, no view on exposing it to other than In-App programs. Our main focus in Phase 2 is to make our customers' journeys easier and easier because we are a diversified consumer financial services business and that's really what generates the balance sheet and the profitability and our entire focus is on that. I hope that answers the question.

↳ new features / journey will be added.

Times effort, integration depth Dictated by Adoption / Customer Response / Friction
* Capital Allocation *

if my full intent is served, they would adopt & even open to integrate / share with our ecosys.

Wow *
Customer decide
Agile players Respond
↳ Refine, deepen
Re-architecting how even IT implementation should work?
Resonate with Mr. Jalema b LTI

Kuntal Shah:

No, just wanted to know the pros and cons of opening it for third-party applications which you are not presented or are not willing to be present?

Rajeev Jain:

There is no never say never Kuntal but don't have a view at this point in time. So, if we think for travel and for shopping, our customers or for things like casual gaming, customers are interested, they are already there. Over time we see on the search menu customers are looking for another category based on data, we will go on and build partnerships. Over time we see in the existing In-App programs, clients are doing more activity. We will integrate tighter, that's our view.

Customer Friction
In App → Tighter Integration
Expand → Stronger Partnerships

Kuntal Shah:

I hope Elon Musk or Salman Khan is going to endure Bajaj Coin which you have laid out I think so we are going down that path.

Moderator:

The next question is from the line of Nitin Jain from FairConnect.

Nitin Jain:

The speed at which company is acquiring fixed deposits like despite offering better rates than private banks; that seems to have decelerated over the past few quarters like from where we were

↳ by Design

growing 8% to 10% Q-o-Q, we are down to low single digits. So, any comment on that? That's all.

Rajeev Jain:

① How focus on efficiency after scale achieved

① Impact of diversification already met for existing franchisees 20% of consol. business imp

No, it's a very fair question and it's a correct question. We have invested in 10-11 channels over the last 4-5 years and we told the teams, the time has come for you to demonstrate that the distribution heft has as much role to play as pricing and that's really what we are testing for the last 6-8 months. We just increased pricing, we have internally pegged it as part of our ALCO processes to G-sec that we kept pricing very tight but the business still generates between 950-1000 crores of retail deposits with average deposit of 3.5 lakhs a month. Let me use the word we are just maturing the business, so that's on one part. The second dimension is that, at the end of the day retail liabilities is a cost center. There is a cost that we decide, that we are willing to spend to diversify the balance sheet on the liability side and they have to make ends meet in that. These are the only two objectives, which is maturity of the distribution investments that you made and two running it in a disciplined manner within a particular cost base.

Nitin Jain:

Just if I can add a follow-up. Is our cost of acquisition of deposits, has it gone up recently or how is it?

Rajeev Jain:

No, it's not gone up. It's actually gone down but that's the pool that is available.

Sandeep Jain:

Rajeev is referring to the overall cost of funds that it creates for the company.

Rajeev Jain:

Stick to line balance - Liability Diversification - Deployment of funds - Fleet distribution - Maintain granularly in Depositor Base

No, I was referring to cost of acquisition. The third point that's Sandeep making is a correct point as well that at the end of the day there are users of this money who also ask in ALCO what do I do with the money, if it comes at this price. Eventually you have to find the rightful balance once the business reaches a particular point of maturity. That's really the point that Sandeep made is equally important. Between these three, that's how you see and your observation is correct, slowing down of the origination.

Moderator:

The next question is from the line of Dhaval Gada from DSP Investments Managers.

Dhaval Gada:

First was on new loan origination. So, the point is, in terms of sales velocity of existing customer base; if you see the current traction it seems to be similar to second-half of last year but still substantially lower than pre-COVID run-rate. The question is, is this number less relevant as the ticket size increases or it's important and that's something that we expect to normalize in FY23?

Rajeev Jain:

You mean loans booked?

Dhaval Gada:

Number of loans booked, yes.

Rajeev Jain:

It's a correct observation. It's a correct point that versus a 6 million, the 7.4 looks good but the point that you are making is correct. In December '19 quarter, we had booked 7.67 million, 7.7 million to be precise. During that period if you recall post pandemic, we came to a conclusion and we disclosed that to the street that there are two lines of businesses that washed away last 3

Culture } Sacrificing Buss. /
 Driven by } Topm. on
 DATA } Quality of Growth
 Backed by } DISCIPLINE

Much better
 quality / sustainable
 backed growth
 now comp. to
 historic highs in
 terms of \$ loans.
 ↓
 With solid infrastructure
 the velocity will inc.
 & growth in future
 will be both better &
 obviously if much
 better QUALITY

years of profitability. One was the retail EMI spends business and that used to do 2,00,000 accounts a month. We capped that at 60,000 accounts. From 6,00,000 accounts we allowed them to do only even in a festive season quarter like the previous one we capped them at 2,20,000 accounts. That 4,00,000 plus-minus gone away. The second was that we used to do these wallet loans to our existing customers of Rs. 5,000 to 10,000 for 3 months so-called in the new jargon which didn't exist then called BNPL. We used to do 70,000 odd loans in a month, that was 2,00,000 loans in a quarter. We walked away from that now last April. That's how the 6,00,000 number logically gets reconciled to 7.4. So, 7.7 apple-to-apple is 8 million is how you should read it. Observation is correct. Is it important, answer is yes? In new loans booked remain an important metric because it demonstrates engagement, demonstrates velocity so it remains important. We think as the economy comes back, as pandemic becomes endemic, given the franchise creation, given the deep distribution, given the new digital platforms that are getting created, we will see both happen. New customer acquisition and new loans booked. I'm waiting to see hopefully a normal summer. We have not seen a normal summer. Summer contributes to 40% of the business. We have not had a normal summer which is April-May-June for last 2 years. So, I hope that answers the question.

Dhaval Gada: Just one follow-up. A small point is in the spirit of December '19 to now I mean we've seen about 33% accretion on cross-sell customer base, 33%-34% accretion on EMI base as well, EMI card base. So, adjusted for the engagement ratios pre-COVID versus where we should be next year. Broadly, should it be similar, even adjusting for the REMI loss and the wallet loan loss? It should be similar?

Rajeev Jain: Yes, we will see increased velocity. Now it's a point of view is I can't say that as I mentioned earlier to the response that as this whole business transformation get delivered, we should see increased velocity and increased engagement and that should lead to higher volumes.

Dhaval Gada: The second question Rajeev, I had was on the digital EMI card. If you look at the base now, it's almost like 5% of the EMI card base. If you look at the engagement metrics here, at least optically they look better than the existing EMI franchise. I wanted to understand the economics part of it. Should these cards be much better breakeven compared to the normal origination?

Rajeev Jain: They are profitable on day one. ⊕ | Digital, X-Sell, Distri, SKU, Physical card benefit → driver → signups

Dhaval Gada: Some initial thoughts on the engagement part.

Rajeev Jain: Out of this 4,92,000, 3,00,000 pay fees instantly and get an EMI card and 1,92,000 as and when they decide to take the product come and at that point of time pay. So that's how the breakup is. If you take it further so 492 on aggregate is profitable on day 1, adjusted for as a P&L.

Moderator: Ladies and gentlemen, we will take the last question from the line of Aditya from Citigroup.

Aditya: If you could talk about two segments. One you mentioned affordable housing in the last quarter. What's the profile of that business in terms of target, yield, ticket size and geography? And on

IPO financing which seems to be low at least on quarter end basis. Is there a change in view on doing less of that? Or could this be just a period end balance sheet phenomenon?

Rajeev Jain: So, affordable housing is just gone live, BHFL is just started to, they have fielded a team, we are testing it into markets. We are building that business with a long-term view, very clearly. So that's very early days. So, Aditya very premature to make any comment on that. It will probably be 18 months before we start to warm it up, let me make a point. That's one part of the conversation. Two, IPO financing just quarter-end, it had no outstanding so that's one. Two, IPO financing as a phenomenon will as you would be all aware would, based on the new guidelines of 1 crores requirement would probably cease to exist from 31st March onwards. So, it seems as a market participant at this point in time. But to retail customers who want it, we would of course offer it but retail customer was never participating that aggressively. But from a longer-term standpoint I could argue that it's a step in the right direction to retailize the market participation.

Aditya: Just secondly, on the LCR norms, what is the expected impact? What portion or what amount of liquidity in this quarter do we have, have we kept in rupee-billion terms to comply with LCR norms?

Sandeep Jain: Yes, so Aditya, we are carrying large amount of liquidity otherwise also. So, there is absolutely no impact that the company has from LCR perspective. The only change that was supposed to be done by us is that so far, a large part of the investment was going in mutual funds. Versus mutual funds now it goes into some of the trade bills and so on so forth. That's the only change that has taken place, that also allows us to leverage. So, trade bills can be used for raising more debt as well. That's the thing that has changed. From an overall guidance perspective, we expect the liquidity buffer for us to go down to 10,000-11,000 kind of range as we go along from here. So, that's on LCR. 13,400 Cr

Aditya: Even on LCR ramping up to 100% there is no material impact?

Sandeep Jain: Yes, more than 100% even now.

Rajeev Jain: As Sandeep says the mix change serves that, there is no financial impact, other than that.

Moderator: Ladies and gentlemen that was the last question for today. I would now like to hand the conference over to Mr. Anuj Singla for closing comments.

Anuj Singla: Thank you Faizaan. Rajeev sir, any last comments before we close upon.

Rajeev Jain: So far so good. Thank you all very much. It's late in the evening and stay safe. This is the most transmissible variant so please stay safe and wish us being safe. Thank you all.

Anuj Singla: Thank you Rajeev sir and Bajaj Finance for giving us the opportunity to host you. Thanks everyone for joining. This concludes the call for today. Over to you Faizaan.



*Bajaj Finance Limited
January 18, 2022*

Moderator:

Thank you. Ladies and gentlemen, on behalf of Bank of America Securities, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.