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Bajaj Finance Limited Q3 FY23 Earnings Conference Call

Friday, 27 January 2023

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Operator Ladies and gentlemen, good day and welcome to Bajaj Finance Q3 FY23 earnings conference call hosted by Morgan Stanley. This event is not for members of the press. If you are a member of the press, please disconnect and reach out separately. For important disclosures, please see the Morgan Stanley disclosure website at www.morganstanley.com/researchdisclosures. Please note that this call and your questions will be recorded and may in certain circumstances be distributed to clients and/or made publicly available. By participating in this event you consent to such recording, distribution and publication. All participants' lines will be in listen-only mode and there'll be an opportunity for you to ask questions after the presentation concludes. I'll now hand over to our host, Mr Subramanian Iyer from Morgan Stanley, to begin. Thank you and over to you, sir.

Subramanian Iyer Thank you, Charlie. Hello, everyone. This is Subramanian Iyer from Morgan Stanley. Thank you very much for joining us for the Bajaj Finance earnings Q3 FY23 results. To discuss the results, I'm pleased to welcome Mr Rajeev Jain, Managing Director, Mr Sandeep Jain, Chief Financial Officer, and other senior members of the management team. Thanks to Rajeev and Sandeep for giving us the opportunity to host you. Without further ado, I now invite Rajeev to take us through the key financial highlights for the quarter, post which we'll open the floor for Q&A. With that, over to you, Rajeev.

Rajeev Jain Thank you, Subu, thank you, Morgan Stanley. Good evening to all of you, or good morning, depending on the geography. I, along with Sandeep here, have Atul Jain, who's the Managing Director at BHFL, and Anup Saha, Deputy CEO of BFL, and a few other colleagues from the company. I'll jump right into the investor presentation that is uploaded in the investor section of our website. Jumping on very quickly, I'll try and speak for 20-odd minutes and from there on, then we can take on questions.

Jumping right onto panel number four. Overall a good quarter, I would say, across all financial and portfolio metrics, albeit marginally lower AUM growth. On track overall to deliver 52,000 to 53,000 crores of core AUM growth in FY23, that leaves only one quarter left. So far, the growth has been around 39,000-odd crores of core AUM growth. Q3 clearly witnessed highest-ever loans booked and new customer addition, and I'll talk about it in the next panel. In terms of going fully digital, now we have 31 million consumers on the app in terms of net installs. Phase two of consumer app has started to now go live in sprints. On track, both on app and web, to fully go digital by March 23.

Some quick stats. AUM grew 27% to just a tad below 2 lakh 31,000 crore. Opex to NII came in at 34.7, and I'll talk about it two panels later. PAT came in just a tad below 3,000 crores at 2,973 year-on-year with a 40% ROE, just a tad below 24% on an annualised basis, and net NPA at 41 basis points. As I said, good quarter on financial and portfolio metrics for the company.

Diving deep in on panel number five. Core AUM growth was 12,476 crores, slightly shorter in the mortgage side of the business due to intense pricing pressures. Predominantly, the growth was slower on account of slower mortgages and I'll cover that when we talk BHFL. AUM 27% we've talked about. New loans came in at 7.84 million, last year same time we had booked 7.44 million.

B2B disbursements was 16,026 crores on a year-on-year basis, up 6%. October was pretty good for B2B for Europe consumer discretionary. November, December the demand slowed down significantly. So far, January, the first 26 days of the month, is looking much better. In terms of new customer addition, first time we've crossed 3 million customers and added 3.14 million customers in a quarter. Overall, we started the year thinking we'll do 9 to 10 million, it looks like we'll cross 11 million new customers in the current year.

Customer franchise 66 million, we're probably end anywhere between 68.5 to 69 million customer franchise ending March. Location, out of 140-odd crore population, we're currently present in 110-odd crore coverage, we added 29 locations. We'd forecasted we'll grow, we'll probably at 400 locations. It looks like we'll probably at 250, 300 only in the current year.

Competitive intensity, I've talked about this point for the last three, four quarters, remains highly elevated, everybody seems to want to do retail. Between growth and margin, margin takes precedence. That's our fundamental view at a management philosophy level, so we continue to protect, which is evident in point number nine. Cost of funds went up, was 7.14, it increased by 23 basis points, but the overall NIM remained flat, it didn't dilute. That's the principal point that we are making, that between growth and margin, choose margin. We, of course, want to grow, we are a growth-oriented business. We want to grow well, but when choosing between the two, the choice is clearly on margin because it creates better sustainability of the business from a long-term standpoint.

Liquidity buffer was strong at just a tad below 13,000 crores. Given the overall strong ALM management, as you can see, the pass-through even in cost of funds is very gradual. Quarter two to three was 23, before that it was another 20-odd basis points. In the first nine months of the year, the total increase is 45 basis points. Given that we run our liability maturity longer than the asset maturity, we'll continue to see a lot more gradual pass-through on cost of funds as we move along, even into the next year.

Deposits book slower in the last quarter versus the first two quarters, we clearly took a lot more aggressive stand. In the first two quarters it was the right thing to do, but we have to deploy all the revenue we originate. Our rate increases in Q3 have been slower than what it was in Q1 and Q2. Having said that, deposits on the balance sheet grew by 3,562 crores, overall now it's 21% of the balance sheet. On a standalone basis, I think it's 28% of the balance sheet. We are very clear, on a consolidated basis, it will be 25% of the balance sheet sometime in the medium term.

NII grew 24%. Actual growth was 28% last year in Q3, IPO financing was at the peak and the company earned during that period 203 crores of IPO financing. Which, of course, since then has been discontinued from April 01, due to regulation, so adjusted on a crore basis, the NII growth is actually 28% versus the real number that you're seeing at 24%. That will become evident as Q4 gets done. Opex to NII improved. We're beginning to see some level of operating leverage emerge, moved down from 35.9 to 34.7 as the core balance sheet starts to build up quarter after quarter, with a similar line of product mix, we should start to see some level of operating leverage emerge. It'll still be marginally higher than it was at pre-COVID level, let me just flag that, as well. Q4, we are reasonably comfortable that we'll be able to sustain these metrics. As we go into next year it will be lower than the current year, we're clear about that. We have peaked on building out the operating expenses investments frame and as the balance sheet builds out, we should see improvement on that.

Loan loss of 841 crores, 1.4, 1.5% of average assets. We continue to hold 1,000 crores of management overlay for uncertainties at this point in time. GNPA and NNPA were lowest. When I say lowest, I think we were lower than that only when we were 13,000 crores of balance sheet in 2013 and it was six months NPA classification, so clearly lowest ever that we've been in the last 16 years. As Sandeep is saying, classification is different, came in at 114 and 41 basis points. Stage two down, stage three marginally up and, as you can see, balance sheet is building out, but it's up by 80-odd crores. All portfolios are green, including the AF portfolio now. Product mix was steady across all nine different verticals that we publish, across B2B, B2C and so on and so forth. Consolidated profit after tax we talked about. Capital adequacy remained pretty strong, Tier 1 capital was 23.3%.

Employee headcount stood at 40,700. We added, I think, 1,300 employees between Q2 and Q3 across the three companies. You're aware, we've disclosed it to the street, point number 23, that we've taken a 41.5% stake in Snapwork Technologies to strengthen our technology roadmap.

BHFL, where as I said earlier, the quarter was a little slow. Approvals grew 14% at 14,514 crores. Disbursements were 7,429, just a tad below 8,000 crores in Q3 last year. It was in the quarter a de-growth but overall, AUM is still up 33% on a nine-month basis to 66,000 crore. Portfolio composition pretty steady, between 61% of the balance sheet is home loan balance sheet, and so on and so forth. Cost of funds increased by 49 basis points, the entire balance sheet is principally variable, so the pass-through has happened equally. To that extent, this balance sheet is protected from interest rate risk. Liquidity buffer was quite strong, as we were expecting stronger divestment. As you can see, the liquidity buffer remained pretty strong, they're well capitalised. Borrowing mixes was steady.

Opex to NII came in at 24.5%, there's improvement because NIM has expanded. Loan losses were down 50% YoY. BHFL also holds a management overlay of 242-odd crores. They are clearly the lowest risk business in India in terms of mortgages. The growth NPA is at 23 basis points and 10 basis points net NPA, so by far. As the for that scale, it's not amongst the lowest balance sheet balance sheet in India, with a 61% home loan business. Stage two assets, hardly anything to talk about, given the number. Stage three assets at 135 crores.

So, other than disbursements, which were slow and, as a result, AUM growth was slow, I would say quarter four BHFL was also good on all financial metrics, other than the disbursement and corresponding AUM growth, which we are hopeful between Q4 and Q1 should come back to growth as well.

BFSL added 77,000 customers, 24 locations. They've got branches now in added six locations in Q3 alone. It'll end the year with 30-odd locations as BFSL. We did a significant upgrade to the app and the web platform, added 45 new features. We'll be adding another between 15 and 16 new features in Q4 as well, and the asset should be a lot more solid and strong as we exit Q4, or the current fiscal, to significantly grow BFSL as a business in the next fiscal. MTF book, which is our core proposition we bring to the table, continues to grow. Profit came in at 3 crores. Last year we also had a similar benefit like the IPO financing benefit on account of IPO allocation, they had a 7 crore one-time profit sitting in there. Their headcount is at 532 people. That's the really the quarter in substance in terms of financials and growth metrics.

Omnipresence, very quickly, I'll jump right in, just in the interest of time. As I said, we'll fully go live across web and app by March 23, so I'll not cover page number ten and 11, but I'll just cover the metrics that we published. Locations will be a little short, we'll probably do 300-odd locations in the current year, between 400 and 450, that why you see yellow there. Otherwise, on downloads, net installed, in-app programme, we are looking super green. Top five in financial domain in Playstore, we're right there in the top five. Service requests are growing quarter-on-quarter, 22 to 25%, so significant improvement in service metrics as a result of us going… Of all the service requests raised, of all service requests that a customer makes, now 22% of them are coming through the app and are migrating to app. We foresee that this number in the medium term could probably go to 40, 45%. Wallet accounts is the only one which is yellow. Otherwise, UPI handles, bill pay transactions we are fully green. 18 million rewards we issued in the quarter.

QR deployment has now started to gather pace. We are now adding 7,500 to 8,000 merchant QRs on a daily basis. We foresee that in the current quarter we'll probably add just a tad below half a million new merchant QRs and because the entire functionality and the infrastructure went live in November, we tested that in December, currently we're adding anywhere between 7,500 to 8,000 merchant QRs on a daily basis. We expect to start becoming visible at the point of sale universally in the next fiscal. What we have done to the app this year, from nowhere we've become top five in terms of downloads. Monthly downloads now are on an average between 5 million to 6 million, we intend to do that for the payments business from a merchant QR standpoint in the next fiscal.

Let's go to panel… These are all green, as you can see there. Customer franchise metric, this is a panel that we published in the second quarter. Clearly you can see that despite the franchise growing, the profit per customer and AUM per customer continues to grow. That's the acquire and cross-sell strategy, so we remain confident that despite growing franchise, we don't foresee that our AUM per customer will get compromised in any given matter.

This, from now on, fourth quarter with the third quarter results we'll start to publish to the street, in general, a long-range strategy update on a rolling basis. We, as a company, have been doing this for 13 years. We thought the time has come from a maturity standpoint to start to publish that to investors as well. What you see is a very quick, abridged version of what we do. Given that we're talking about it for the first time, this is on panel 16, what do we do as part of what we call long-range strategy?

It's an annual five-year rolling strategy plan with an execution plan of 12 to 24 months. We look at the macro as part of the rolling framework, look at the industry outlook, look at the technology megatrends, look at business megatrends, select a benchmark company to learn from, and create a bottom-up financial plan. It's a highly institutionalised and rigorous process and involves the top 500 people in the company on an annual basis over a 45 to 50 day period. We've been doing it for the last 13 years, so we thought, given the maturity of the company, the time has come for us to start to update that to the investors as well.

Very quickly, it's weaved around a basic construct. The basic construct of the company is on six key pillars. What is our ambition as a company? What is our strategy as a company? What is our approach as a company? What is the philosophy around which we have built the business? And what do we expect our market share and profit share to be as a company in this country? If you go to ambition, clearly ambition is to be a leading payments and financial services company. Have 100 million consumers, we'll end this year with 70 million consumers, as I said earlier. 3% of payments GMV, 3 to 4% of total credit and 4 to 5% of retail credit. That's clearly the ambition for us as a company from a long-range standpoint.

Strategy is to build omnipresent financial services company. Wherever the consumer goes, goes to branch, goes to app, goes to web, goes to social, goes for reward, and eventually goes virtual, we want to be omnipresent, offering all our products and services. Approach has remained simple for the last 13 years, acquire and cross-sell across all assets and liabilities and broking products to consumer, small business, commercial and rural consumers in India, across all consumer platforms.

Philosophy, build business with a ten-year view. We're very clear, financials services built with a ten-year view and deliver through the cycle 19 to 21% shareholder returns. Except for COVID, we've done that successfully for the last 12, 13 years and we intend to continue to do that. We think because of our construct, it's helped us deliver that at a design level because we take a longer-term view on building our business, it helps us anchor our business much more strongly.

Market share, clearly among the top five in every respective product that we're in. That's the ambition at the design level. And profit share, to be on the top 20 most profitable companies in India and five to six most profitable financial services companies in India on a sustainable basis, is really the frame.

That's the construct. Now, if you take the construct and say what does that cover in the strategy from a rolling standpoint, is really what you see on the next panel. We see industry, it grew, the past data is factual, the next data is our forecast. Like everybody has a right to forecast, we have a right to forecast. Our forecast is that the total credit will grow from 149 lakh crore to 237 lakh crore and grow by 12.5% CAGR over the next five-year period.

The panel that you see, panel 20, this is overall retail mix of India. Largely steady over the last ten years, we're foreseeing that not to change. When we look at it, we find, and we do know that for a while, that we're not there in 28% of retail categories at a fundamental level, which is auto, CVs and agri, which is what you see pencilled in here at 16, eight and four, if you take FY23 estimates. That's really where we see the market headed, where we see the forecast from a retail mix standpoint.

From a megatrend standpoint, what you see in this panel, panel 21, is these are 15 megatrends at a management level we've identified, that we're investing in. Across India stack platforms, products and technology, these are the 15 areas we'll go through. The megatrends don't change, but they get versionised over time. Clearly we see in India stack, account aggregator to be one of the big, game-changing moments for regional financial services. On platforms, we see 500 million Indians are on social platforms. We think it's a big game-changer. We think rewards is a big frame when we look at leading companies which are in retail business. We think pre-owned, given where prices of new products have gone to at a design level, from digital products to motorcycles to cars, is thematically a very big change as you move from here. In technology, AR has become consumerised, it's become real. Vernacular and voice is really how the rural consumer is engaging with any of the companies who are in rural, deeper into India.

These are the 15 megatrends that we've identified. We'll provide an update on this at the end of every third quarter on an annual basis. If we take all these three, the strategic constructs, any retail business are organised as products, geography, platforms, horizontals. This is really where any retail business is organised. I'm not going to get into detail, but clearly, on products we intend to be among the top five players in each product line. On geography, we're already in just a tad below 4,000 cities in India.

So far, our strategy was where there's STP, there's Finserv. We are now saying wherever there's Finserv, all products of Finserv should be there or Bajaj Finance should be there. On platforms, build out social and rewards the way we've built out app and web over the last 2.5 years, build in the foundation of that and build that out as big over the next 18-odd months, as you build out app and web to be. On horizontals, STP across all products as you go fully digital, we need more and more STP on service, FPC, and so on and so forth. As you go larger in size, continue to diversify liability profile. On subsidiaries, leverage our platforms to originate mortgages and broking accounts for subsidiaries. 12 to 15% of that business of retail mortgage and 20 to 25% of broking accounts would or should come from us, as we take a five-year view, and we'll build this out as we deliver this.

What that means from an execution standpoint is we will launch… You see, here I don't have to go through it, it's mentioned in very clear terms, but we took a view that we so far we used to do LAP only in Bajaj Housing Finance, but as we came to a conclusion that as we build out MSME, it's one of the core products, so BHFL would also do and BFL would also do. When we looked at external market benchmarking, we found that one of the largest players which as a non-bank and a bank, also always did it that way. If we want to grow MSME, then we'll probably have to do LAP in both entities.

Bajaj+, which is so-called finance-plus, in January we already rolled out, launched New Autos. I think after mortgages it's the lowest risk category. Makes less money, but we've invested the last four years in building out used cars. We are now among the top four, five monthly originators of used cars on the back of that. Given that of the total outstanding in India of auto loans, 33% sits on our current franchise of 70 million. The experience that we have with 2-Wheeler open architecture, we launched the business in June, we're already now originating

8,000 to 9,000 open architecture 2-Wheeler loans, gives us significant confidence that we can build out a business in the new PE loans as well.

MFI, given how deep we've gone into India, is a business that we launched in a phased manner in Q4 and tractor in Q1. On the commercial side, emerging corporate business in Q3, B2B on QR and EDC in Q4, and so on and so forth. That's really the eight megatrends out of 15 that I showed you we will do an FY24 and the balance in FY25. That's the sum and substance gist of it.

What that means on a rolling basis, at least our forecast is, that 4.5 years from now we'll have 110 to 120 million consumers franchise. We'll have crossed the franchise of 65 to 70 million. India payments GMV versus our 3% ambition would be between one and 1.25, share of total credit would be between 2.5 to 2.75. You can see the numbers there, they're largely self-explanatory. Profit per customer would continue to move in tandem and AUM per customer should continue to grow in line with nominal GDP, and return on equity should continue to sustain. We thought that's what we'll share with you. As I said on panel 25, we'll start to share along with Q3 results every year from here on, the process for us starts in October every year as a company and ends in December. That's the quarter.

Last point, as my team is reminding me, panel 59, composition remains steady, six to five, eight to seven, 20, 20, so on and so forth. As I've always said, between 1 and 2% plus-minus, that's really where, as you can see, because mortgages are slower for the quarter, the mix from… Sorry, actually, AUM mortgages on AUM basis went up from 32 to 33.

Last point, and part of it is a point that is important I make, that we originate customers through our B2B business. Balance sheet stack is now down to 9%. The seasonality that used to exist at a particular point in time in Q3 and Q1 for us, increasingly has gone away. The contribution of B2B as a balance sheet business will keep going down. It's possible sitting here next year, the 9% number which looked like 10% last year the same time, might look like 8%. It's very much possible because balance sheet is becoming shorter and shorter, churn is higher and higher. It would continue to generate disproportionately high customers to whom we excel in cross-selling. That's really what we do, that's how we've created a business model.

Increasingly, you will not see Q3 or Q1, which is really where B2B at a point in time, this contribution used to be 14, 15%, you would see swings. The swings will not be there. In fact, if I take the reverse point, that the Q2 balance sheet grew faster. Q2 the balance sheet grew 14,700-odd crores, in Q3 it's grown only 12,700 crores, so that seasonality effect in the balance sheet mix has largely gone away. It's an important point I thought I'll anchor. The rest, I think we are fine on portfolio metrics. Happy to take questions between me and some of my senior colleagues.

Operator Thank you very much. We will now begin the Q&A session. If you'd like to ask a question, please press star followed by one on your telephone keypad now. If you change your mind, please press star followed by two to withdraw your question. When preparing to ask your question, please ensure your phone is unmuted locally. As a reminder, that's star followed by one on your telephone keypad now. Our first question comes from Piran Engineer of CLSA. Piran, your line is open, please go ahead.

Piran Engineer Thank you and congrats on the good set of numbers. Just a couple of questions. Firstly, earlier this month in Davos, Mr Bajaj said that Bajaj Fin is looking to hire 3,000 to 4,000 engineers. It was a CNBC interview, I don't know whether he was referring to Bajaj Finance of Finserv, but just wanted to get your thoughts on what the strategy is out there? Because it seems to be a slightly larger number in context of the fintechs that are out there.

Rajeev Jain We have hired already for the current year 650 engineers from colleges, just to give you texture on the freshers that's been hired by us, as BFL. I can talk for BFL, clearly I'm sure that must be happening for other group companies as well. We have hired 650-odd engineers as freshers, last year we hired 300, the year before we hired 150, so clearly, we do foresee that next year we'll be hiring 1,000-odd people. That gets decided in June because we go to campuses in August, from an engineering colleges standpoint. We, as BFL, have hired freshers of 650-odd people.

Piran Engineer Okay, that makes sense. Secondly, not related to the quarter, but when I look at insurance, I'm trying to understand what sort of fee income potential is out there from insurance cross-sell? When we see the commission income you'll earn from Bajaj Life and Bajaj General, it's only 25, 30 crores annually. Am I reading this data wrong, is there more in terms of what can be done here? Because it seems to be a very small number.

Sandeep Jain Piran, you’re referring to life insurance business, I think there is health insurance business, there's general insurance business, there's extended warrantee, etc. All these products carry different commission structures and they do contribute significantly in terms of overall financial outcome. That's what is the reply.

Rajeev Jain And open architecture.

Sandeep Jain We work with 27 insurance companies,

Rajeev Jain We work with nine.

Sandeep Jain We’re working now with nine already. We can do tie-up with 18 more insurance companies.

Piran Engineer But would you be willing to share broadly what sort of fee income you'll earn annually from insurance cross-sell, overall, out of all your tie-ups?

Rajeev Jain Piran, as I said, they do contribute materially to the overall numbers. We have not disclosed it separately. We'll see if there's a possibility for us to disclose separately and then will report.

Piran Engineer Okay, fair enough. Lastly, can you cross-sell a DBS credit card to an RBL customers and vice versa? Or is the contract that once you go in, the customer’s locked with that?

Maneesh Sharma As a governance principle, we do not cross-sell DBS co-brand to an RBL and vice versa. However, if the customer has closed his card on either side, then [overtalking].

Rajeev Jain After a cooling period.

Maneesh Sharma Then governance after a particular cooling period, it is then allowed to be cross-sold to the other card, but we do not do it while the card is still alive, that’s the governance principle that we apply.

Piran Engineer Got it, that makes sense. Thank you and all the best.

Operator Thank you. Our next question comes from Ashish Sharma of ENAM Asset Management. Ashish, your line is open, please go ahead.

Ashish Sharma Hi, thanks for the opportunity. Rajeev, a fabulous update on the LRS. Just one question on LRS. As per the strategy, we would want to do everything organic or is inorganic also part of this whole long-range plan?

Rajeev Jain We build businesses all organic.

Ashish Sharma Perfect. Second question would be on the BHFL, you mentioned about the competitive intensity. Just also wanted to get some perspective on how the demand has panned out, given that there has been a very, very sharp increase in interest rates, the home loan rate. It's only competitive intensity or there also has been some impact on the demand because interest rates have moved so rapidly?

Rajeev Jain if I'm not mistaken, this is published, if I take nine-month data, that shows the housing loans, growth is only 9%. 8.89%, if I'm not mistaken. I think that's really what I saw the number to be, if my memory is correct. Clearly, nine-month view looks like a 9% kind of number at this point, in terms of additions. The rest Atul can add on.

Atul Jain Competitive intensity, that also is fuelled by a lot of rate increase. As of now on the primary sales, because the market has two parts, primary and secondary, which is a balance transfer on the primary. In the primary side in the demand, we have not seen any significant downturn of the rates catching up. On the secondary side, given the rate increases happening at a regular time, there is a bit of a compression. So, not on the primary side, but on the secondary side there is a compression.

Rajeev Jain As we said, we will do our best in terms of how we price. Mind you, we only do salaried, we don't do self-employed mortgages, so in fact, in home loans also, it's the most intensely competitive space. Because self-employed home loans are, in our assessment, not priced for risk, so it is the most intense part of home loans that you are competing in or continue to compete in. A quarter here and quarter there really doesn't bother us, but we don't want to lose margin. Whatever little is there in the home loan business, any which way.

Ashish Sharma Lastly, on the performance of operating costs being lower than the revenue, you expect that we can sustain that, given that we've already done our investments? Just want some colour on that, Rajeev.

Rajeev Jain As I said, Q4 we will sustain from a guidance standpoint. Largest part of our Opex lines are salary increases, so on and so forth, new hiring. As we build out, we'll provide an outlook for next year by Q4, Ashish. But we're clearly seeing operating leverage emerge, that is super clear. Where will it anchor? I think by end of Q4 we'll provide guidance on that as well, for next fiscal.

Ashish Sharma Perfect, Rajeev, thank you. All the best for the next quarter. Thank you.

Rajeev Jain Thank you.

Operator Thank you. Our next question comes from Abhishek Murarka of HSBC. Abhishek, your line is open, please go ahead.

Abhishek Murarka Hi, Rajeev and team. Thanks for taking my question. My first question is on this long-range strategy. A conversion to a bank is not part of it. How are you thinking about that as part of a long range? Because if you get to 100, 110 million customers, you would already be among the largest out there. How are you thinking about the conversion to a bank?

Rajeev Jain I said this in our AGM in July, Abhishek, there's no plan to convert into a bank, in a reasonably uncluttered manner, let me make a point, again. That's as uncluttered as I can get, or as clear as I can get, there's no plan to be a bank. We foresee that even these numbers get us to be smaller than the current largest loan bank, just about there at today's level. I'm talking 4.5 years forward. If our gross NPA and net NPA sustained performance over long periods of time does not pose any kind… If we continue to manage the business as well as we've done over the last ten years, it does not create any kind of reason for us to be a bank. These numbers don't assume a bank and we don't plan to be.

Abhishek Murarka Got it, sure. The second one is again in your long-range plan, you said you'll do LAP in both BFL, BHFL, roughly modelled on the business model followed by somebody else. What will be the difference again, will it be a customer profile difference or will it be similar?

Rajeev Jain No, it's similar, except… Let's just step back for a moment. The business loan business of ours, as per bureau data, and when I say market share, I am talking on a run, we only look at verifiable score. That's the aggregate credit data. Otherwise, in product lines the only data that we're relying on is bureau data. If the bureau says how many loans are booked as consumer durable loan over trend line on a long-term sustainable basis. If I take business loans booked in India on a one-quarter lag basis, that shows that 21 to 23% of the loans booked as business loans in India is with us. They're all small businesses or professionals.

When we look at the MSME sector in India, that market is 23.5 lakh crore. The business loan market of that is only 4%. Now if we want to dominate and we want to be leading there in the MSME space, we came to a conclusion that just BHFL doing that will not be sufficient, and that business of ours is a lot more B2B. We are very, very strong from a B2B geography, distribution is very, very strong. We are sustainably the only two players in India who have done business on for the last 15 years and they were shutting it, and we're one of those. We give this very high credibility with the distribution ecosystem, so I think we already, as I said, started it. I think it's starting to move with all guns blazing already.

Atul is here on the call. In fact, he's a big votary of that fact that the margin is very, very large. That BHFL can continue to gather and we can continue to gather without any kind of compromise or conflict, in any given manner, on the loan against property business. At a price and market basis, adjusted to emerging market priced differently from Tier 2 markets, priced differently from Tier 1 markets, we offer business loans in 2,000 cities in India, plus a level of product differentiation in terms of that.

Abhishek Murarka Perfect. Just a last question, in your fees and commission expensive, now that has declined QoQ, whereas your new loans booked and customer acquisition, sequentially growth in all of those have been pretty strong. How do we think about this, that you're doing something yourselves or through the app and, therefore, you're getting some operating leverage? Or how should we think about this side?

Unidentified Male Abhishek, we are Ind AS accounting, the origination on Opex side that gets amortised along with the income. What you see, a large portion of that is recovery commission. As the portfolio quality continues to improve, the recovery commission has come down, actually. So, that's the reason.

Abhishek Murarka Got it. Thank you so much and all the best for the quarter.

Rajeev Jain Thank you.

Operator Thank you. As a reminder, if you wish to submit a question, please press star followed by one on your telephone keypad and please limit yourself to two questions, so we can complete the queue. Our next question comes from Harshvardhan Agrawal of IDFC Mutual Fund. Harshvardhan, your line is open, please go ahead.

Harshvardhan Agrawal Hi, thanks for the opportunity. Can you please tell us what are the rate hikes that you've taken across products, apart from home loans? If you've taken that and what's the broad quantum of it?

Rajeev Jain Quantum would be, as you can see, as we've said, that so far we've managed to neutralise the impact of increasing cost of funds and having fees in a staggard manner, pricing as well. In the fixed rate businesses, we have probably so far passed through, depending on business to business, 50, 60, 70 basis points. It would differ from business to business, differ on different level of competitiveness in the business, differs on our moat in the business, so quantum would be hard to…

Sandeep Jain The variable price business would've got completely repriced, in line with market rates. The fixed rate businesses would see incremental repricing, which is as Rajeev said, 50 to 70 basis points, depending on business to business. The impact of it will become visible over a period of time.

Harshvardhan Agrawal Sure, thanks. Another question is what percentage of BFL book is compliant to that?

Rajeev Jain BFL compliant. In BHFL we track, also in ALCO. As I said, there's no need to track. But if I tracked it, it would probably be anywhere between, my sense is, across on a consolidated basis, 14 to 16%, if we tracked it. Last we did the exercise in 20, we have not done this exercise since then. We will track it in some of our processes in BHFL, but not in BFL.

Harshvardhan Agrawal One last question is about you mentioned that you will be getting into MFI business and tractor financing. Those are very competitive business, so what kind of right to win we have in those areas?

Rajeev Jain Two things. You can ask the same question even for autos, so that we're on the same page. But autos, as I mentioned, we have a very large existing franchise setting, to be fair. MFI clearly, the core mode that we're looking at is we are very, very deep. We are now in, as I said, 110-odd crores penetration. There's still 30 crore coverage left, so we understand the stake, understand the market, understand the local district level, having done various businesses. That's point number one. Our plan is to start with two states.

I must flag one thing, none of these are going to grow overnight. As I said, we build businesses with a five- to seven-year view, so it will be staggered frame. We launched 2-Wheeler in June, we're only in two states in India. When I launched 2-Wheeler open architecture in June, we've launched only Gujarat and Maharashtra. It's only now we are going into top 15 cities in India, so it will be a staggered frame. Business must find its feet first and then we grow, so there's no urgency. When we have looked in the past or when we launch a business and when it became materially significant to balance sheet and P&L, it appears that it takes anywhere between 3.5 to 4.5 years by the time it becomes material, either from a profitable standpoint or from a balance sheet standpoint. I think it's important I flag that.

We launch MFI in UP, Tamilnadu we are looking at two states and over the period of four years build out in ten states in India. When we look at even tractors, we find there are 600,000 of our customers who have a current active tractor loan, just to give you texture. The same thing that applies for PV, applies for tractor as well. MFI, I must also flag, as RBI came out with the new requirements in September, which became effective October. When we looked at those metrics, we found that there are a set of loans that we do on a monthly basis in personal loans cross-sell, 3 to 4% of them qualify and we'll start to attack them as MFI. When we look at performance, we come to a conclusion that there is merit in us pursuing the business as well. There is some level of experience, even there, sitting there, based on the new RBI regulation requirement. That's the background on these three, existing customer, and deep knowledge of the geography from an MFI standpoint.

Harshvardhan Agrawal Sure, thanks a lot.

Operator Thank you. Our next question comes from Kuntal Shah of Oaklane Capital. Kuntal, your line is open, please go ahead.

Kuntal Shah Hey Rajeev and team. Thanks for this update on LRS and credibility of leading the distribution ecosystem. My questions are two. What is the status of credit card approval by RBI for us and then NBFC in general? Where do you think you stand and what timelines do you expect for us to begin that business? Secondly, this quarter saw addition of only 27 locations, and for 27, also you're guiding only 600-odd additions. Are you slowing down on geographical reach or how do we read this? Those are my two questions. Thank you.

Rajeev Jain For credit card we applied, Kuntal, we are waiting, we are hopeful, is all I can say. We'll go by whatever RBI will do, they will do it for the industry in general, I would like to believe, so for the non-bank pack and based on credentials, is the response on credit card, Kuntal. In terms of geography, the economics must work, principal number one. I don't have to be present in all 140 crores of population in India.

The economics must work, as I tell people, from the west of India to south of India, every 30 km on the highway we have a branch now, if you stayed on the highway. This is from Gujarat to the large parts of opportunity, resilient part of opportunity from a population coverage and the economics would work, we principally now see only UP and Bihar and some parts of Northeast. That's really one of the frames that you see. We foresee that in a five-year horizon, we'll probably now land up opening only 445-odd locations. Let me give you a specific number, of that 400 will actually come in UP Bihar and the Northeast. Only 45 is the gap that we see in rest of India. Other than that, as Anup is correcting me, other than NFI. Urban/rural business, as you know it today, will have an eventual net addition from here from the next five-year standpoint of 4.5 years for only 445. That to 400 in UP, Bihar and Northeast and balance 45 are some of the blind spots in the rest of India as you build out MFI, w will see.. That should give us 123, 124-odd crore coverage at a redesign level.

The bigger frame, Kuntal, from the next five years for us from a strategic standpoint on LRS is, as I said earlier, our areas used to be Jaha TV waha Bajaj Finserv but now it is Jaha Bajaj Finserv waha Bajaj Finserv ke sare products. Let me give you texture. Only 3% of our locations have 80% plus of our products, we know that. But those products give us experience, they give us a branch, they give understanding of the market, they give us understanding of the consumer. The next step on geographic infrastructure is about in a templated manner get all our products. That's really where we're headed. Sometime in maybe next year, LRS update, or the year after, we'll start to provide an update on how some of these things are going as well, to create greater degree of transparency in the process. But strategy is 445 more locations in 4.5 years, but focus on Jaha Bajaj Finserv waha Bajaj Finserv ke sare products.

Operator Thank you. Our next question comes from Nischint Chawathe of Kotak. Nischint, your line is open, please proceed.

Nischint Chawathe Thanks for taking my question. Again, to the same point about going into the below prime segment of the market. You already focussed on the prime segment and the mass affluent class. I understand that you by now have a reach across the country, across the particularly the highway, but still, this is a very different market, it comes with a very different mindset. Most of the companies who have been successful out here are hyper local companies who are multi-regional regional players. These are largely collection-based models, so how are you changing the entire business? Is it something that you're planning to do it on an experimental stage or would you do the completely different medium enterprise within Bajaj that you would follow?

Rajeev Jain It's a very good point. As the company grows larger, one of the frames of the company, and we've done that, Nischint, good you made this point. We're coming to a conclusion as we grow larger, a few of the businesses have to be paradised out. Actually, with microfinance we'll have three paradise units in the company. The two existing paradise units in the company are actually payments business, the technology and operations, business development. HR sits as a paradise unit, adjusted for risk, payments has very little risk from the product standpoint otherwise adjusted for risk, sits as a paradise unit.

We have done the same thing, and it's good you raise the point, I forgot, I missed making that point. If you go to our omnipresence update on the panel, you will see that we've actually upgraded our Gold loan branches from 179, full-year estimate was 225, it's at 375. By FY24 we've signed off, FY24 we'll have 650 standalone Gold loan branches. With actually even paradise, we came to a conclusion that we need to paradise Gold loan as well. You now paradise it out, adjust it for risk, as I said. Otherwise, operations, cash, sales, administration, HR, all of those units have been paradised out. MFI will also be paradised out.

We understand fully that these businesses have different nuances, they're to be run differently. What do we bring to the table in MFI? Unfortunately, Nischint, when I look at the industry, I still find very poor/relatively poor technology adoption. If they want us to scale these businesses, they must have significantly deeper technology adoption, is what my observer point of view is. As a practicing manager, the view may change as we launch it, but today our view is we can bring lots greater and deeper technology intervention from a last-mile standpoint to the business and will be paradised out.

Nischint Chawathe Just one smaller one, you mentioned that the post-festive demand was sort of weak for the first two month and, despite that, you had a record number of client additions. Typically you would have the B2B customers driving these client additions, so how do we consider these two points?

Rajeev Jain Two things. As I said, clearly deeper geography continues to add NTB customers, that's my number one. We showed 61-62% of the customer currently exiting, 38-39% of the customers on a sustained basis. And it differs, the number between 65, 35, so continues to be NTB, that has not changed. Plus, if you got to panel 13, you'll see the customers acquired digitally, EMI card acquired digitally, are already now near 6.5 lakh a quarter. That number of course in Q1 was, as you can see there, 122,664. I have to also still remind people that 60% of these customers pay a fee. If 630,000 came, 60% of them paid an $8 fee and went, got fully underwritten, fully digital. I spent less than Rs100 across all kinds of marketing infrastructure and 60% of them pay a fee. 40% become active in a 12-month rolling basis and balance we continue to stable it. That's how you should reconcile the number.

Just on the demand outlook, 55% of the B2B loans are now digital, meaning mainly phone, by laptops, etc., also our digital products. Take phone, month on month, if you take September, October, November, December, if you take the IDC shipment data, it continues to trend downward. That's the real data. The shipments in India on a… Sorry? 7% de-growth annualised and last quarter 12, 13%. But it will recover. I think it is also coming in on a high base, 21, 22 everybody was online. India could not buy as many laptops as it would've liked, life had to go on, so people bought a lot more phones, so there will be some degree of year-on-year averaging there. That, also, one has to take into account before one takes the view that is it a structural downturn or a transitory downturn? I think it's transitory, you should start to see a pickup. As I already said, Jan is looking better.

Nischint Chawathe Perfect, thank you very much.

Rajeev Jain Nischint, it's been a long time, me and Sandeep were remembering you.

Operator Thank you. Our next question comes from Krishnan Asv of HDFC Securities. Krishnan, your line is open, please go ahead.

Krishnan Asv Hi, Rajeev and team, thanks for taking my question. This is more a governance query, or an observation. Cleary you have been setting an example in all the right ways on so many financial parameters. It's a little unusual when you see the level of open securitisation on the likely transition around KMPs within BFL, especially for a franchise that’s been driven so scientifically. It's either reflecting a complete lack of governance controls or it appears to be a deliberate ploy. It's just an observation and provide your feedback, if you may.

Rajeev Jain Krishnan, I don't understand your point. Can you be more specific?

Krishnan Asv In case there is a likely transition within BFL, that you seem to be aware of at a board level, etc., I think this is ideally something that you should bring out in the public domain, instead of letting many pockets of speculation open up. It's just an observation Rajeev.

Rajeev Jain And then when we do, as and when the board decides or such discussions happen, we will of course let the street know. There's no discussion on it at all, so there's nothing for us to disclose.

Krishnan Asv Great. My second question has a little bit to do with the business, it goes back to one of the earlier queries around how do you pivot from being a mass affluent franchise to something that becomes a little more mass oriented and what kind of risk controls you have in place in order to prepare the franchise for that? Maybe if you could elaborate a little bit.

Rajeev Jain It's horses for courses, Krishnan. Even in the businesses that we’re in, somebody could argue that, is Gold loan a mass business or a mass affluent business? The way we run the business is our average ticket size is 3X of what a non-bank lender loans. We find pockets even within that because we think share of wallet eventually works better than number of customers. Even within, as we get into some of these businesses, we look for pockets. If you take the 2-Wheeler financing business that we've launched in open architecture, we’re doing this time more Honda than we’re doing Hero. It's no secret that that scooter customer is better than another mass agri customer.

We tend to, at a philosophy level, identify pockets where a customer has better behaviour from a consumer standpoint, has a larger wallet for us to cross-sell to. That’s the philosophic response to the answer. May there be such opportunity in MFI and the business to go live only in Q3, so as we get deeper into it, we are already in January, we'll take a view there. Otherwise, for CV, industry service transition to super mass affluent. If you see the structure of the industry, the mass cars are now selling only affluent and super affluent cars are selling. Gold loan, I gave you an example, 2-Wheeler, I gave an example, so we look for wallet rather than look for balance sheet.

Krishnan Asv Got it, thank you.

Rajeev Jain Thank you.

Operator The final question we have time for today comes from Dhaval Gada of DSP. Dhaval, your line is open, please go ahead.

Dhaval Gada Thank you for the opportunity. Congrats on the good set of numbers, Rajeev. Just one question, more a clarification from an understanding perspective. From the slide, it implies around 6.3 lakh crores of AUM by FY27 and about 26,000 crore profit, which is implying the 26, 27% AUM growth and 23, 24% profit growth. The question is you've given us the target of 26, 27% AUM growth and you have a long-term guidance of 130, which again implies similar outcomes. Normally, most companies you see that as you grow in size, in many companies the growth starts tapering off or size comes into the picture. In our case, we seem to be in a zone that will be steadily compounding for a fairly long period of time. What would you attribute this to? Is it the franchise, is it the product that is driving it? What exactly is the reason for this, in a fairly long period of compounding at a similar pace of growth? Thanks.

Rajeev Jain 10% of the loans booked in India, plus-minus, between 9 and 10% of loans booked in India every month, but only 3% of assets. Let me give you one single metric. If I take long-term Euro data, that means just on the franchise is a gap of 7% sitting there. One, you need full product coverage, it goes back to the earlier conversation and, two, you need platforms, that's really where the investment existing in the last 2.5 years in app and web platform and in the next two years in the social and the rewards platform. Between products and platforms and consumers you already have, and with the long-term orientation that we have, just keep playing along is all we need to do. I don't think we need to reinvent anything. We've got to keep mining and, as I said, product coverage will get completed, platforms you built out over the last three years, and a 70 million franchise with a 40 million customers ending this year, all we just need to do is continue to just mine those clients.

That's what gives us confidence, let me make a point. That remains a tremendous opportunity. To do it too quickly, it's a problem. Do it too slowly, it's a problem. Just at a cruising altitude, growth oriented, so that we're all on the same page, don't see this to be a challenge. Mind you, I'm not making a new point. In July we made the point, in AGM, that we'll get to 4 lakh crore. That was three-year plan, this is five-year plan and, in that, one year is gone. We will add this year, I've said already, 53,000 crores of balance sheet. Doing too much, 52, 53, between 64 to 67 and 75 to 80. Some of the numbers, as I keep telling people, it took us 15 years to get to 2 lakh crore. It'll take only 18 years for us to get to 4 lakh crore. That's compounding and we are very clear, we are not letting this opportunity go, to build a once in a while opportunity that comes our way in building this business out.

Dhaval Gada Got it, thanks. I wish you all the very best. Thank you.

Operator Thank you. This concludes today's Q&A session. Therefore, I hand back over to the management team for any closing remarks.

Rajeev Jain Thank you. Have a good weekend. Thank you for your patience.