Bajaj Finance Q1 FY25 Earnings Conference Call

Tuesday, 23 July 2024

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All participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes.

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

Subramanian Iyer: Thank you, Elliot. Hello, everyone. This is Subramanian Iyer from Morgan Stanley. Thank you very much for joining us for the Bajaj Finance Q1 FY25 earnings call. To discuss the results I'm pleased to welcome Mr. Rajeev Jain, Managing Director, Mr. Anup Saha, Deputy Managing Director, Mr. Sandeep Jain, CFO and COO, and other senior members of the management team.
On behalf of Morgan Stanley, I thank Bajaj Finance management 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, Morgan Stanley. Good evening to those who are in this part of the geography and good morning to those who are dialing in from Western Hemisphere. I'll take you through the investor presentation, which is uploaded on the investor section of our website. Let me just quickly jump over to panel four of the investor deck.

Overall, I would say mixed quarter for the firm, good quarter in terms of volumes, assets under management, growth, operating efficiencies, portfolio metrics, and ROE. But loan losses for the quarter were elevated as you must have already gone through.

Overall delivered AUM growth of Rs23,600 crores, booked 11 million loans and added 4.47 million new customers in Q1. Bajaj Finserv App now has just a tad below 57 million customers. On May 2, as you're aware, RBI lifted restrictions on sanctions and disbursal of loans under eCOM and Insta EMI Card and the firm went live offering Insta EMI Card from 10th of May and started to do eCOM from 1st of June and fully went live across all platform partners by 15th of June.

In terms of AUM, AUM as you can see, grew by 31%.

OpEx to net total income came in at 33.33%.

PAT. PBT grew by 16%. PAT grew by 14%. PAT grew by 14% because of the last year in BHFL we had a one-time gain on account of deferred-tax liability. Otherwise, PBT grew 16%, PAT grew 14%. ROE came in at just a tad below 20% at 19.9% and net NPA came in 38 basis points.

On panel five quickly, I've talked about AUM, I've talked about new loans growth, I've talked about 4.5 million new customer addition. Customer franchise is at 88.11 million and cross sell franchise stood at 55 million. We added 57 new locations and 9,000 distribution points.

Liquidity buffer remains strong at Rs16,235 crores both in BFL and BHFL. The liquidity buffer given strong treasury market, we managed to raise reasonable amount of long-term money.

In Q1 cost of funds was 7.94%. It was an increase of eight basis points on a sequential basis in the quarter. We expect that cost of funds should principally peak by August or so, or July or September is the last leg of increase in terms of cost of funds that should happen. And from there on cost of funds should start to go sideways. And hopefully as rate cut cycle comes in, we should see numbers go down in terms of cost of funds.

Deposit book grew by 26% and stood at just a tad below Rs 63,000 crore and net growth in the quarter was Rs 2,600 crores. Deposits accounted for 20% of consolidated borrowing.

NIM grew 25%. NIM compression was despite the fact that… NIM compressed by 23 basis points, 13 basis points was on account of cost of funds and 10 basis points movement was due to AUM composition.

OpEX to net total income came in line, came in at 33.2% against 34% in Q4 last year.

Employee accounts stood at 55,000 and annualized attrition was 16.8%.

Credit cost, it's not a great quarter from that standpoint. Gross loan losses and provisions was Rs 1,790 crores. Gross loan loss to average AUF was 2.12%. Net was 1.99%, which is in point number 17. We consumed management overlay of Rs105 crores?

Sandeep Jain: Yeah.

Rajeev Jain: Of Rs105 crores in a quarter and that's the differential between 2.12% and 1.99%.

Net loan loss to average AUF. For the year, we projected to be between 1.75 and 1.85% and we expect improvement in H2 of the current year. At this junction however, I would say for FY25, we have marginal upward bias on this metric.

GNPA and net NNPA came in line, came in at 86 basis points and 38 basis points as against 87 basis points and 31 basis points.

Principally as we look at the loan losses and provision performance, in that assessment is principally contributed by muted collection efficiencies. When we look at the default rates across portfolios, they are lower than March or on a year-on-year basis. However, collection efficiencies were muted across portfolios, actually, in the quarter that went by and as a result, stage two assets went up by Rs865 crores in Q4. We're clearly augmenting our... we had because even in 2019 when elections happened, if you go back to our results, the fourth quarter, the first quarter when 2019 elections happened, there was so much of disruption and dislocation that happened that even in that quarter you will see that the loan losses end up from Rs400 crores to 551 crores. So we expected it won't happen, but clearly expectation was not sufficient but we have experienced this in the past in '19 and it's happened again in fact. So that's just a point to make.

Consolidated pre-provisioning profit grew by 25%. Profit before tax grew by 16% to Rs5,265 crores and consolidated PAT grew by 14% on account of one-time reversal of deferred tax liability of 73 crores.

Annualized ROA came in at 4.63%. ROE came in at 19.86/19.9% and capital adequacy came in at 21.65%.

Lastly, point number 27, that Bajaj Housing Finance, which is a 100% subsidiary, has filed DRHP on 8th of June with SEBI and stock exchanges for potential IPO equity shares and we are awaiting clearance and based on market conditions we'll take a view.

For BHFL quickly now. From consolidated results, point number 28 for BHFL, it is a good quarter. AUM was up 31% to Rs97,000 crores. Home loan grew by 25%. Loan against property grew 21%. LRD grew 41%, developer finance 75%. Portfolio composition remained largely steady on a year-on-year basis between 58%, 10%, 20%, 11%, and two percent. The NIM grew by 10%. OpEx to net total income improved from 24% to 21%.

GNPA and NNPA stood at 28 basis points and 11 basis points and profit before tax grew by 20%. And as a result of the deferred tax liability point that I made for consolidated profit, after tax grew by 5% to Rs483 crores.

Annualized ROA came in at 2.35% and annualized ROE came in at 14.32%. Capital adequacy remains strong at 24%. As you're aware, BFL infused Rs2,000 crores of capital in April as a rights issue in BHFL.

On BFSL, the margin trade financing, AUM was up to 65% to Rs 4,400 crores. Profit after tax grew by 500%, base is very small, to rupees thirty-odd crores and we think on a full year basis the firm could make Rs140 to 160 crores of PAT as we traverse the balance of the year.

Very quickly to panel number 12, some of the omnichannel metrics. Net installs are now up year-on-year at 41%. Total traffic on web is up 23%. Personal loan disbursed in the quarter of Rs 4,500 crores through the omnipresence strategy. In terms of customer franchise AUM per cross sell franchise stood at Rs 64,235, per AUM cross sell franchise. PAT per cross sell franchise came in at 709 rupees. It is down of course as you can see from Rs776 to Rs709 because last year ROA was 5.4%, which was a historic high. Our long-term guidance is for an ROA of 4.5 to 4.7% and that's why you saw the last year number look this way.

I'm jumping straight to panel 47, which is consolidated AUM. Mostly on a year-on-year basis in line. Two-wheeler and three-wheeler finance in line. Urban sales finance down because eCOM whose balance sheet had run down is sitting as part of that. Otherwise, 7.6% would've been 8%, but eCOM businesses and the travel businesses restarted again, so that balance sheet should build out over the next four or five months.

Urban B2C, flat. Rural sales finance, flat. So portfolio mix largely remained flat except for car loans. We launched new car finance last year, so that number was 1.3%. It's up at 2.5% and the rest of the numbers are remaining sideways. Mortgages, 30.6%, it's at 30.9%.

In terms of provisioning coverage, gross NPA year ago, as you can see there is movement across lines but absolute numbers. So you can see movement across lines to that extent. But if you take out urban sales finance, the number movement is for Rs31 crores. But you can see that it's not portfolio determined. It is muted collection efficiency determined and that's where you're seeing some level of worsening marginal or otherwise across the board in the quarter that went by. As a result, GNPA is looking higher on a sequential basis. Overall aggregate GNPA is sideways, NNPA is also sideways, but on a year-on-year basis, you see number having moved from 87 to 86bp and 31 to 30bp. Provisioning coverage to 56% from last quarter we had 57%, is just marginally down to 56%. This is on panel 51 is the consolidated provisioning coverage. As I said, it's at 56%, so it's mainly as a result of overlay release. That's the principle differential.

On portfolio quality. So clearly under Ind AS methodology you land up accounting for loan losses ahead rather than later. So you may see these numbers are green here. Then how come loan losses and provisions are higher mainly contributed by the Ind AS and ECL that you land up eating loan losses much early on. Otherwise, as you see the portfolio quality, if you see consumer durables 99.38% to 99.45%, if you look at urban B2C 98.45% to 98.33%, there is a 12-13 basis point differential in stage two assets and so on and so forth. You will find that most of the portfolio metrics are looking green, but the loan losses for the quarter are looking elevated and there is a marginal difference everywhere.

Other than two-wheeler and three-wheeler, which has seen movement, but the reason it is green is because sequentially, if you see February '20, this number used to be at 11-odd percent, it's at 5.0% and again due to mutual collection efficiency otherwise, the default rates in the portfolio bounce rates are still at March levels.

I am on panel 55. You can see rural B2C because the portfolio is not growing. Even in quarter one it grew by 5%. It grew by 5%, so on a full year basis we forecast this portfolio will probably grow by 10, 11% on a year-on-year basis. But we are beginning to see that how the good year and the bad year can start to also make a difference because for the last one-year, rather 15 months, this portfolio has actually been growing at 5, 6%.

That's really all for me to communicate in the quarter. Happy to take questions.

Elliot: Thank you. We'll now begin the question and answer session. If you would like to ask a question, please press the star followed by one on your telephone keypad. If you change your mind, please press star followed by two.

When preparing to ask your question, please ensure your phone is unmuted locally.

Please limit yourself to maximum of two questions so we can accommodate as many as possible. Ladies and gentlemen, we will wait for a moment while the questions be assembled.

Our first question comes from Chintan Joshi with Autonomous. Your line is open. Please go ahead.

Chintan Joshi: Hi, thank you. Can I ask one on your NIMs and one on asset quality?

On NIMs, you highlight 10 basis points in compression this quarter coming from AUM composition, this follows about 20 basis points from the last quarter. How should we think about NIM progression because your AUM composition trends appear to be clear.

And following that, if I think about it on a longer term view, three to five year view, should we continue to expect somewhat NIM compression from this makeshift over time?

That's on NIM, then I have one more.

Rajeev Jain: Yeah. Yeah, go ahead. Go ahead. Go ahead. Go ahead, Chintan. Sorry.

Chintan Joshi: The other one is just on asset quality. You've given decent comments on collection efficiency. Should we take away that underlying you don't see any problems at all, this is purely an election related issue? Or is there more to read, especially things like you've highlighted two-wheeler, three-wheeler, those areas where there is a bit of elevation, is that purely election related? Thank you.

Rajeev Jain: No, it's a fair question. So, Chintan, by October quarter onwards, you should see stabilization of NIMs. And that's point number one I would make. That's really how we are modeling the portfolio model. So you will see one more quarter of movement as a result of NIM compression, but from there on the portfolio mix should largely hold.

In terms of portfolio quality. Look, we are in a risk business. While I could argue with you that it's a transient frame. As a firm, we are a risk-first business. We remain watchful across portfolios. Based on the data, we already started to proactively prune segments. We have started to cut exposures. So if it turns out to be transient, great. If it doesn't turn out to be transient, which we will have a clearer view by October on, we would've at least acted ahead. So that's on a -

Chintan Joshi: So on NIM we should not-

Chintan Joshi: On NIM, we should not expect a medium term compression because-

Rajeev Jain: No-

Chintan Joshi: Of the mix shift becoming more-

Rajeev Jain: No.

Chintan Joshi: Okay. You don't... Okay, thank you. Thank you.

Rajeev Jain: The scale builders and as we call profit builders and scale builders, we remain committed to anchor them at the level I-

Chintan Joshi: And if I just look at the last five years of scale builders versus profit maximizers, there is a differential in the five-year CAGR. That would indicate that that kind of differential may continue over the next while. That's why I'm asking that question.

Rajeev Jain: No, it's a very fair question. It's a very fair question and the response is, stabilization from here on.

Chintan Joshi: Okay, thank you.

Rajeev Jain: From September on. Sorry-

Elliot: Our next question comes from Piran Engineer from CLSA. Your line is open. Please go ahead.

Piran Engineer: Yes. Hi, team, congrats on the quarter. And thanks for taking my question.

Just again on asset quality really. Firstly, if you can just quantify what is the impact on credit costs from the write-off policy change you have had last year. So that's one.

And secondly, it really gives us the confidence of improvement in the second half of the year in credit costs. And why hasn't urban B2C been as impacted as rural B2C?

Rajeev Jain: There's been no change in our write-off policy in the last one year-

Piran.

Rajeev Jain: Piran. So I think that's a first response-

Piran Engineer: You were accelerating it, right? Or you're not writing it off so you-

Rajeev Jain: No, no, that is. Last two years we have no change in write-off. Anup, correct my understanding, please-

Sandeep Jain: That's correct. Now, for pre-COVID we used to have a differential write-off policy wherein I would hold the for much longer period of time. Post-COVID, I think from 2021, '22 we have revised the policy, we write off quickly now.

In the last one year there has been no change in the write-off policy.

Piran Engineer: Okay. Okay.

Rajeev Jain: And as I said, Piran, given that you've seen some level of worsening across the board, we are proactively pruning segments and we remain watchful. We are cutting exposures as well. So, so far we are not seeing worsening in urban B2C, but we are watching external data, we are watching internal data carefully.

Piran Engineer: Okay. Okay. And just regarding the-

Rajeev Jain: Between risk and growth, if you were to choose, we'll choose risk. Because longer term is more important than the shorter term.

Piran Engineer: No, that's fair, that's fair. No, just, I mean continuing on the question of the previous participant direct, whether this is transient or not really because you are still sticking to a 1.75 to 1.85% credit cost guidance. So just wanted to get a sense of what gives us the confidence of an improvement in the second half.

Sandeep Jain: So, Piran, if you notice the disclosure that we have done on stage level breakup of the overall balance sheet, you will see that the movement has taken place in stage two.

And to the point that Rajeev was making that when the delinquency go up a little bit whether an account of bounce going up or collection efficiency is going down, it takes probably two quarters for it to normalize. In this case the customers have migrated to an extent because of the lower collection efficiency in Q1 from stage one to stage two.

There is reason to believe that we'll be able to control the subsequent slippage into stage three. However, at this point in time we'll assume that that will happen in Q2 and after that because incrementally as Rajeev said, in the month of June or July, as we are seeing the bounces rates to be, they are looking better than where it used to be January to March. That gives us confidence saying that from quarter three onward we should have some improvement in the overall collection efficiency on the loan loss number.

Piran Engineer: Okay. Okay, that answers it. Thank you so much and all the best.

Elliot: Our next question comes from Kunal Shah with Citigroup. Your line is open. Please go ahead.

Kunal Shah: Yeah, and hi. So as you indicated maybe because of this we are pruning down a few of the segments, but any revision with respect to the growth guidance which you had given earlier as the 26 to 28-odd percent? Because maybe at the same point in time on credit costs also you have indicated that there could be some marginal upward bias on that metric as well.

So anything in mind in terms of pruning down on the growth and the guidance out there?

Sandeep Jain: Kunal, if I see, current quarter number, we have seen a balance sheet growth of 31%, Rs20,500 crores was the growth for the quarter. We are pruning down exposures where we deem appropriate at this point in time based on the incoming data.

However, that doesn't change the guidance for the year. We have said 26 and 28% with an upward bias towards 28%. We continue to maintain the same guidance at this stage.

Kunal Shah: Okay. So there's no revision on there.

Rajeev Jain: There's no change.

Sandeep Jain: There's no change, yeah.

Kunal Shah: Okay, no change-

Rajeev Jain: But, Kunal, as I said earlier, we are watching the same, we are watching the default rates. Are we seeing July default rates lower than June and lower than March? Answer is yes. But default rates were not a problem even in April measure. It's collection efficiency. So we are watching and we are acting as well as from a prudent standpoint.

Kunal Shah: Sure. And secondly, on the fee income side. So can we say that we are closer to the normalization out there, maybe post the lifting of the restrictions or there is maybe still more to flow in wherein we could see the gain contraction on the overall fee income.

Rajeev Jain: Sorry, Kunal, as I said, we could go live on EMI Card only on 10th of May and eCOM went live only in June, middle of June rather, between 1st and 15th of June. So there was drag for at least 50, 60 days even in Q1. So there is some level of residue that is sitting there which should flow through or we should come through as we move through the next three quarters.

Kunal Shah: Okay. Okay. And I'm not sure if you already highlighted in terms of this entire other income within the non-interest side, any reason for the sharp rise out there?

Sandeep Jain : Yeah, that's mainly account of one causality in the overall volume, which also has relevance from a cost perspective. So that's one reason.

Second is restart of EMI Card sourcing starting from 10th of May as Rajeev highlighted. The second reason.

Third is we also had a one-time gain on account of a small write-off portfolio sale that we did. That has also come through in the current quarter.

Kunal Shah: Okay. One-time gain on write off. And that will be a significant one?

Anup : That's about 45 crore rupees for the quarter, Kunal.

Kunal Shah: Okay. Okay. Yeah. Thank you. Thanks and all the best.

Elliot: We now turn to Antariksha Banerjee with ICICI Prudential AMC. Your line is open. Please go ahead.

Antariksha Banerjee: Yeah, thanks. Am I?

Rajeev Jain: Yes, yes.

Antariksha Banerjee: Yeah, so thanks for the explanation. I just wanted to clarify this point on credit cost and collection efficiency. What you're saying, sir, in the quarter the bounces or the volume flows into the next buckets were not as large, but basically the LGDs went up across segments. When you mean collection efficiency, it is the volume, or it is the value, is that right understanding?

Sandeep Jain: So the number of customers who are bouncing earlier, which means present 100 cases on a monthly basis, X number were bouncing. Did we see a rapid increase in bounce rate? Answer is no. However, of the customers who were bouncing, did we see a little lower-

Antariksha Banerjee: Recovery was lower-

Sandeep Jain : Efficiency in that?

Rajeev Jain: That's correct.

Sandeep Jain: So recovery is slower. As a result, customer has migrated from stage one to stage two where the PCR versus say 80 basis point in stage one is roughly about 30, 35, 40% in case of stage two customers.

Antariksha Banerjee: Got it. And just related to this, we've been calling out some stress in rural B2C for some time. At the system level there are various markers around this topic. Are there markers that you can identify for these stress apart from this one quarter? Is it multiple loans for the customer who are more prone to these lower recoveries? Is there a special type of exposure? Some region, cohorts of age, anything that you've identified in terms of markers?

Sandeep Jain : So based on the internal assessment that we have carried out using the bureau data, one, I think based on the action taken by RBI on risk weight assets, there seems to be I would say a stagnancy or a flat number that we see on a disbursement month after month starting I would say November, December 2023 right until June month. That's one.

Second, I think as we look at the overall AUM growth of the overall balance sheet that we are seeing for the industry also seemingly easing out a little bit and as these disbursements on a monthly basis remain stable for some more one or two or three more quarters, we'll also see the AUM growth rate slow down a bit for the industry. That's one thing.

However, when we look at the overall customer profile in terms of set of customers who are having multiple loans, say before COVID versus today, have we seen a marginal increase? Answer is yes. Is it significant? Answer is no. The movement between customers who did not have any loan of unsecured out of our active banking was 63% in March '20. That has come down to 50 million, 42% customers whom we bank on a monthly basis have some of the loan relationship in the market. Set of customers out of this had more than one loan. There is a 3% increase in the customers who have multiple loans at this stage.

Antariksha Banerjee: Sure, but that is not the year-over-year market growth-

Rajeev Jain: So has this number moved versus pre-COVID? The answer is yes. But is there a significant moment, at least in our portfolio that we see? We are banking right now 21 million unique customers-

Sandeep Jain: Yeah, 21 million unique customers, yeah.

Rajeev Jain: 21 million unique customers. We are banking 10 million unique customers in 2020. 63% had no unsecured loan. Now 58% don't have unsecured loans. So in five years only 5% number has actually moved. And-

Sandeep Jain: But-

Rajeev Jain: But in that to the point Sandeep is making, are they seeing movement on one unsecured and two unsecured and three unsecured? The answer is yes, but nothing to conclude that there's a problem.

Sandeep Jain: In fact, last data point, I think versus FY22 to FY24, we have in fact seen the number of customers who have outstanding personal loan has actually come down, in percentage down.

So as Rajeev said, 58% customers don't have a personal at this stage, but the number was 60% in the... Sorry, the number was 57%. In the last year there is 1% improvement in terms of number of customers who don't have personal.

Rajeev Jain: So-

Antariksha Banerjee: Sure. Sure-

Rajeev Jain: He is giving a third number, 63% did not have. Now 58 don't have. When we got this data on '23, it was 57.

Antariksha Banerjee: 57. Got it. Got it. Okay, thanks. That's clear.

Just a small thing. Sandeep, what is this policy on utilization of contingent provisions? Is it formula driven basis or something or is it subjective?

Sandeep Jain: So we have created provisions predominantly for COVID situation. Since we have come out from COVID in entirety, we have cleaned up the provision that we are carrying as management overlay for the same purpose. At this point in time, I think there is only a small amount of provision that remains in Bajaj Housing Finance Limited. As far as BFL is concerned, we don't carry any overlay at this stage. Whatever is the overlay that you see now is purely because of macroeconomic consideration that needs to be baked in as part of the ECL model itself.

Antariksha Banerjee: Sure, got it. And just one small data point. Is there any impact of this RBI regulation on penal interest versus penal charges in our other income?

Sandeep Jain: No, we were never capitalizing penal interest/penal charges, so we did not have any impact of the particular.

Antariksha Banerjee: Sure. Okay. Thank you. That's it.

Elliot: We now turn to Dhaval Gada with DSP. Your line is open. Please go ahead.

Dhaval Gada: Hi, thanks for the opportunity. Just one question on growth. So I mean, if you could just talk a little bit about the new products, how the scale up is taking place.

And just in that same context, medium term may not be FY25/26, but just directionally the book mix as it progresses to your target level, how should one think about sustainable credit cost, which I think last time you had explained that should be about 175bp based on the revised RBI guideline and the write-off policy change that you talked about earlier? So just any comments around that would be useful.

Rajeev Jain: So growth clearly, Dhaval, we have...

Elliot: Ladies and gentlemen, we've lost connection with our speaker. Thanks for your patience as we reconnect them.

Rajeev Jain: Yeah. Sorry, Dhaval. So, Dhaval, as we have guided, the full year growth to be in the region of 26 to 28%. That's point number one in terms of the outlook for the current year and I would say 2.2, 2.3x of bank credit growth is really where you should pencil in the number. So we remain well anchored on long-term growth guidance.

Now coming to medium term loan losses and provision outlook. See pre-COVID, the number was 192 basis points, the number and since, 172 basis a full year.

Sandeep Jain: Yes.

Rajeev Jain: Nine months was full year, 172 basis points. If you knock off one-timers, since then there have been changes too. From a regulatory standpoint there have been changes. If you adjust that number, the 172 to 185. You should pencil in between 175 and 185 basis points from a medium-term standpoint.

Deval Gada: Understood. Thanks and all the best.

Elliot: We now turn to Abhishek Murarka with HSBC. Your line is open. Please go ahead.

Abhishek Murarka: Yeah. Hi, everyone. Thanks for the opportunity. So two questions.

One, on this rural B2C, almost for four or five quarters we've been cautious, we've not been growing. So what needs to turn for us to get more comfort to grow in this segment? What are the things you're looking out for?

The second question is regarding this product per customer slide. So how do we read this? So if I see there's a bit of a plateauing out of the product per customer at 6.1, 6.2 and your two-year-old 24 month on board customers is also close to 6.2. So are we more or less at a peak at 6.1, 6.2 in terms of cross sell? And does that mean that now you need to spend much more on selling the next product or increasing customer acquisition costs? So how do we read this?

Sandeep Jain: Yeah.

Anup Saha: So hi, Anup here. On the rural B2C as we clearly articulated is last one, one and a half years we have been fine-tuning in terms of risk cuts. But having said that, when we look at rural B2C, because these are all cross sell personal loans, our rural B2B growth has been very, very robust. So that gives us a significant latitude to actually offer the product to right customers. That is one.

Second is, what we have been doing is as you looked at the whole collection efficiency as a metric because the affordability is the real fallout when you go to rural and at a design level, we are looking at taking the loans at right average ticket size. So I think more broader base of customers being offered the loan with a lower EMI is where we are anchoring the rural and that's how we used to do it pre-COVID.

But what happened during COVID and post-COVID, obviously what was left to us better customers and we thought they possibly can service a little better higher EMI and that does not seem to work as well in rural because rural is all about affordability in EMI and your ability to repay. So I think that's the larger part.

Having said that the B2B growth of rural continue to remain robust, which gives us reasonable confidence that we will start climbing that number up. I think that's about 10, 12% this year and forward from there. So I think that's the first point.

On products per customer, you can do a metric and that metric is a combination of our lending products, payment products, deposits, and distribution product. The larger movement there has been because of the payment products, because as we moved more digital, we wanted consumers to use the payment products and that's the large movement. When it comes to the lending product, that number is I think 2.6, 2.7, right? That's broadly how that gets anchored. But the larger part of the PPC is payment products and that drives our digital engagement strategy.

Rajeev Jain: Lastly-

Abhishek Murarka: So, and-

Rajeev Jain: I just want to add, appreciate that when we look at the total franchise of 89 million, if India dispenses monthly in our assessment Rs72 to 75,000 crores of personal loans a month, the franchise gets between Rs36 to 40,000 crores a month, whereas our coverage of that is only 10%. So the PPC metric, quite honestly as Anup made the point, we track it but we track it only once in a quarter. I mean six products per customer on a two-year basis, it's an outcome rather than input. It's not a metric we chase. It's a need from investors. So we started to populate it.

Otherwise, businesses are organized vertically in the company. There is independence for respective units to cross sell as they deem appropriate is just the last point I would make. So franchises, the power of the franchise is not an issue at all and Anup made an important point that less to more rather than more to less.

And what we did then was not wrong because in hindsight COVID let the customers at the margin drop off. So the only thing that was left to do that those who survived or continue to perform well could be offered. So in hindsight it looks okay, but at that point in time it was the right thing to do. I would just make that point as well.

Abhishek Murarka: No, fair, fair. So appreciate that. And just, when does this readjustment come into the base for rural B2C?

Rajeev Jain: No, we-

Abhishek Murarka: Is it moving to-

Rajeev Jain: It's underway. It's underway. To the point Anup is making, it's underway. You already, as I made earlier, Abhishek, point that we had already... So we have not just done this in rural, we've done this in urban as well. So as I made the point that we remain watchful on... So we've cut exposure on both sides of the lines. So we've cut exposures than less to more we've done in both urban and in rural. So it'll further create greater granularity in risk in the process. And-

Abhishek Murarka: Got it.

Rajeev Jain: Really, if I keep making the point on the ones that I keep making, is normalizing to pre-pandemic. I think we like it or not, it's something that ought to happen. At least that's my personal view.

Abhishek Murarka: Sure, sure. No, thank you so much. Thanks and appreciate your answers. Thank you.

Elliot: We now turn to Avinash Singh with Emkay Global Financial Services. Your line is open. Please go ahead.

Avinash Singh: Hi, thanks for the opportunity. A couple of questions.

I mean the car loan segment, if we see, of course it's growing at a very strong pace moderate but there has been a sequentially for the last three, four quarters, I mean a strong growth yet a very marginal increasing stage two there as well. Now, here one would expect that typically the customer segment to be prime and also what is going on there? I mean I am admitting-

Sandeep Jain: We're not sure about.

Avinash Singh: That's a very small number.

Rajeev Jain: Sorry, sir-

Avinash Singh: Yeah, so what.

Rajeev Jain: Can you repeat?

Avinash Singh: Yeah, I am talking of car loan segment. In car loan segment, if we see last four, five quarters, of course it's small, it is growing very fast, but there has been a stage two percentage increase happening in the last three, four, five quarters. So what is the sort of a trend there because there customer segment typically will be urban and prime? So what is going on there, one?

And on BHFL, I mean do you think that, I mean now with this developer finance and LRD also gaining size, will the growth differential between home loan and be sufficient enough for you to maintain a balanced yield or will the growth going forward will converge and that will put pressure on your overall yield? Thanks.

Sandeep Jain: Yeah. So, Avinash, particularly on car loan financing, it is mainly on account of launch of new car financing that we did in July 2023. And it is that business which is leading to significant growth in the overall auto loans segment that you are witnessing at this point in time. So far until July 2023 we used to only focus on used car financing. From July '23 onward, we have started focusing on new car financing as well.

Regarding mortgage, Atul Jain is here. I'll request Atul to give comment on.

Rajeev Jain: Before his on, just on the previous point, you're talking about inching up of delinquencies, that's what you meant or you meant growth?

Avinash Singh: Yes, yes. Yes, yes, exactly-

Rajeev Jain: A clarity.

Avinash Singh: Yes, yes, it's anything about inching up of delinquency for the last three, four quarters?

Rajeev Jain: Because there was just one point I do want to make is that if you look at the panel 56. Now technically we're talking about 99.34% of current in September '23. And the baseline numbers for us are very, very low. I think that is one point I want to anchor and it's at 98.8% current. And this includes, mind you, this is 65% of the used car portfolio, okay? And 35% of the portfolio is new car portfolio. Please mind you, the threshold levels, the delinquency are extremely low is just one point I want to leave you with, just at a design level, right?

And you will see this number stabilize somewhere. Now, based on our internal model, these numbers remain quite low. So you will see them move up. Many years ago we used to have a benchmark line, we'll probably just re-establish the benchmark line so that as we launch new businesses, the investors are well seized of what the benchmark line is. So I take that input away from the conversation.

Atul, one of you had a question on.

Avinash Singh: Yeah, yeah. So nothing like I mean, yeah.

Rajeev Jain: Yeah, sorry, sorry, go ahead, go ahead, go ahead, go ahead, Avinash-

Avinash Singh: Yeah, on car loan, exactly. So I mean now you're Rs8,000 crores. At some point the growth really start to moderate to where the baseline is, exactly that is of course the point I'm trying make that okay, of course that okay, very, very low. I mean 0.8% is still is a very, very low delinquency in a whole scheme of things. But where is that line you see that, okay, Rs8,000 maybe doubles another, say, reach to Rs15,000 crores?

Rajeev Jain: No, that's a fair point, it's a fair point. We'll publish next quarter onwards the benchmark number.

Avinash Singh: Okay. And on the BHFL-

Rajeev Jain: Yeah, so is the concern, Avinash?

Avinash Singh: No, I mean with the developer finance and LRD book now getting a significant insight and probably going forward, the growth of home loan converging with these two, do you see a pressure on yield in the BHFL segment or will this segment will continue to outgrow the core home loan?

Atul Jain: So, Avinash, Atul here. So in BHFL we have a regulatory construct of something called the principal business criteria, which is laid down by RBI. So the portfolio construct is largely going to play within the large asset kind of a built or a portfolio mix. We have plus minus 2-3% is the margin, which can be there in the product construct, but 60% of the assets have to be housing assets, and out of that also 50% plus has to be individual home loan.

Now LRD as an asset class, right, is not a ROE decretive, it is a ROE optimizer as? Because between LRD and the LAP, we play in between both assets at a point of a time. If I have to say last one year, one and a half year, we have found LRD to be more risk adjusted, better returns because it's versus loan against property. Because as a housing finance company, 60% has to be the home loans part. So that goes there. Plus developer finance, which is required both from ROE enhancer and as well as it's an integral part of our home loan business because we get significant part of our home loan boost through the developer where we are funding.

Now, the best part of the portfolio is between LAP and LRD. Depending upon our risk return view, we take a stance on being heavy. We right now continue to be heavy on LRD and as a return it is not return dilutive because it's a very low opex direct source business and quite risk adjusted returns are good enough here.

Avinash Singh: Okay. Okay, got it. Thanks.

Elliot: We now turn to Sandhya Agrawal with Unicorn Assets. Your line is open. Please go ahead.

Sandhya Agrawal: Hi, sir. Good evening. So first question is on the lines of the previous participant as well and on the vehicle finance car loans and two-wheeler loan.

So we see some kind of trend building up in both the vehicle finance and slowly the collection efficiency and the credit cost line phasing. So any view on particularly the vehicle finance divisions, because they nearly constitute 25% of our gross NPAs?

Rajeev Jain: No, that's not correct.

Sandeep Jain: Two-wheeler, three-wheeler plus car.

Rajeev Jain: No, they are two different genres. They're not comparable at all. They're completely different. Even in auto loan, and here I would say that as the... Actually, to the previous question of Avinash, as the share of new car in this portfolio increases which is also back, so this portfolio will eventually be published on the auto loans. But internally the model is organized as 55:45. 55% used autos and 45% new autos. That's point number one.

Today it is 70:30, so actually the net be stage two of the current portfolio in this will only go up actually, which will improve, okay, as new auto builds up? But the problem with new auto is it's very hard to make money. So that's why it has to be pegged at 55:45. I think just to give you that texture related to Avinash's question as well.

Two-wheeler is a completely different genre that that business is a good business, it runs a very different risk-adjusted rates of return. So as you can see, even where it is 11% stage two, it is still a profitable business. And at 5% stage two it still remains there-

Sandeep Jain: A profitable business.

Rajeev Jain: A reasonable profitable business.

Sandhya Agrawal: Thank you. And secondly, on just a longer-term guidance. So as we see that obviously we are growing a new customer base with around 15 to 20%, and going forward we may see some slightly modest numbers, like new customer data numbers in mid-teen percentage. But do we also look to add a new product line in terms of business segment like MSMEs or any other government is also promoting too much on the MSMEs part and the other side because maybe we can look for newer segments for faster growth?

Rajeev Jain: No, so we principally have a reasonably large market share in business loans, which is a 16-year-old business. We have reasonable market share in that business. That's two MSMEs. The loan against property in last January that was started in BFL is also to MSMEs. So we pretty well capture the full MSME space. That's one part.

Sandhya Agrawal: No, I mean-

Rajeev Jain: The other one-

Sandhya Agrawal: The supply chain financing and other product.

Rajeev Jain: Sorry?

Sandhya Agrawal: The supply chain and the.

Rajeev Jain: We already do supply chain financing to emerging local emerging corporates. But don't do it in MSME because it's not risk adjusted.

Sandhya Agrawal: And just lastly on the BFSL part, so the franchise is really growing faster and faster day by day. So what kind of things we are looking in terms of technological trends in BFSL, because I heard that on election day the application and website went down.

Rajeev Jain: So as the profitability of the business starts to come through, we took a clear view that we first got to generate profitability before we make deep investments in building out the retail broking and the business. So the business, as I said earlier in the opening remarks, that should make between Rs150 to 160 crores of PAT it should make.

We've just hired a new CIO. We are now rapidly accelerating the tech development infrastructure. It did go down to the point that you make is correct. And you will see significant movement in that space over the next six to nine months time.

Sandhya Agrawal: It was 10%-

Rajeev Jain: A colleague of mine who left us, who was our chief operating officer, has moved on their board as well to advise them on tech stack.

Sandhya Agrawal: Thank you. Thank you so much. All the best.

Elliot: That's all the time we have for our Q&A. I will now hand back to Subramanian Iyer with Morgan Stanley for closing remarks.

Subramanian Iyer: On behalf of Morgan Stanley, I thank Rajeev, Anup, Sandeep, Atul, and team for their time and insights. Rajeev, will you want to make any closing remarks?

Rajeev Jain: No, no, no. I'm good, Subbu. Thank you.

Subramanian Iyer Okay. Okay. So I wish you all the best and thanks-

Rajeev Jain: What if people wanting to ask questions or I can see on the... Subbu? At least I can see on the... and maybe I'm... If there are no questions, then we are fine, I mean now, but...

Subramanian Iyer Yeah, I think we can-

Rajeev Jain: Yeah, we'll see.

Subramanian Iyer Possibly take one more question. But if you...

Anup: Yes, maybe the next couple of questions. Yeah.

Sandeep: We can take-

Anup: A couple of questions.

Rajeev Jain: Sorry. Sorry-

Elliot: Yeah, we can-

Rajeev Jain: Sorry. Subbu.

Elliot: Our next question comes from Anurag Mantry with Oxbow Capital. Your line is open. Please go ahead.

Anurag Mantry: Hey. Hi, thanks. And just one question. Coming back to the asset quality comments. Basically, with rural B2C-

Rajeev Jain: Sorry, sorry, sorry. Sorry, Anurag.

Sandeep Jain: Asset Quality.

Rajeev Jain: Yeah. Yeah, sorry, Anurag.

Anurag Mantry: Yeah, no what I was asking is, are there any correlations or anything to read into the trends in rural B2C and maybe the trends in MFI as well, because that's another segment where the industry has always seen higher delinquencies? So I mean if you can highlight if there's any overlap to think about that would be useful.

And secondly-

Rajeev Jain: Overlap in.

Anurag Mantry: On the collections part...

Rajeev Jain: Wait, wait, wait. Go ahead, Anurag.

Anurag Mantry: Well, I'm sorry, on the collections, just wanted to understand if it has any implications for the way you're thinking about the opex growth for this sphere given that we'd probably be looking to spend more on collections potentially?

Rajeev Jain: So the overlap with MFI is very, very little. So that's point number one.

Point number two, we should continue to see opex to NIM gravitate downwards despite augmenting the debt management infrastructure work that we are doing. Hello.

Anurag Mantry: Got it. Thank you, Rajeev.

Rajeev Jain: Yeah.

Elliot: We now turn to Bhavik Dave with Nippon India Mutual Fund. Your line is open. Please go ahead.

Bhavik Dave: Yeah. Hi, hope I'm. Just one question, sir. If you could just talk about the competitive intensity in the urban B2B and B2C segments. Because with last one we've been talking about competitive intensity being quite high in terms of personal loans wherein a lot of large banks and even PSUs have got quite aggressive.

How are things there in terms of both the aggression in terms of pricing and the push towards this product, both on the B2B and B2C side? Thank you.

Sandeep Jain: One, Bhavik, very clearly. On the B2B business, we continue to maintain the market share. The market share has remained range-bound I would say for the last four quarters consecutively. We have seen some loss of market share during April to December 2022. Ever since then, we have made significant investments in terms of field capacity and subsequent to that we have been holding our market share at the levels where we used to be pre-COVID. In fact, we was just about off the market even as we have restarted our e-commerce financing business, post lifting of embargo. We have seen reasonable, I would say, coming back of customers wanting to take e-commerce loans through EMI Card in the current quarter, more particularly in the second half of June on the restart of e-commerce business.

Bhavik Dave: Sure. And in terms of PL, any thoughts in terms of these competitors?

Rajeev Jain: I'm sorry, sorry, sorry.

Bhavik Dave: I was trying to understand, sir. You had mentioned that large banks had got really aggressive in terms of personal loans in urban wherein the as we were going up, the rates were not being commensurate. Has things changed there considering the RBI directive in terms of slowing down in terms of unsecured? Have things changed there or things are still highly competitive?

Anup Saha: Hi, Anup here. See, at the aggregate level we do see some moderation of unsecured loans. However, as we see the data, the largest lenders there are the public sector banks. So I think that number is possibly 35 to 40% of the total lending is happening on unsecured is the public sector. And of course the FinTech numbers are very, very small in terms of value. Those are more small. We do see moderation there.

So overall our market share remains where it is. In fact, we have lost little market share there. It used to be around 7%. Our market share will be slower by and large we are maintaining. But we have run this business by and large at a similar growth rate. We have not changed our there.

Bhavik Dave: Right. That's helpful, thank you.

Elliot: Ladies and gentlemen, this concludes our Q&A and today's conference call. We'd like to thank for your participation. You may now disconnect your lines.