"Bajaj Finance Limited Q1 FY '22 Earnings Conference Call hosted by Bank of America Securities"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Bajaj Finance Limited Q1 FY '22 Earnings Conference Call hosted by Bank of America Securities.

This call will be recorded, and the recording will be made public by the company person to its regulatory obligation. Certain personal information such as the name and the organization maybe asked during the call. If you do not wish for it to be disclosed, please immediately discontinue this call. This call is not for media representatives or Bank of America investment bankers or commercial bankers including corporate and commercial asset. All such individuals are instructed to disconnect now. A replay will be available for Bank of America investment bankers and commercial bankers including corporate and commercial assets. The replay is not available to the media.

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

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

Anuj Singla: Thank you Rituja. Good Morning everyone, this is Anuj Singla from Bank of America Securities. Thank you very much for joining us for the Bajaj Finance earnings call to discuss Q1 FY '22 results. To discuss the results, I am pleased to Welcome Mr. Rajeev Jain, Managing Director, Bajaj Finance Limited and other senior members of the Management team. Thank you very much for the opportunity to host you. I now invite Mr. Rajeev Jain to introduce the Management team on the call and take us through the financial highlights for the quarter post which we will open the floor for Q&A. With that, over to you Rajeev.

Rajeev Jain: Thank you Anuj. I have with me Sandeep Jain – our CFO; Atul Jain – CEO, BHFL; Manish Jain – CEO, Bajaj Financial Securities Limited; Anup Saha – Deputy CEO, Bajaj Finance Limited; Anurag Chottani – CIO; Fakhari Sarjan – our CRO; Deepak Bagati – our Chief Collections Officer; and Kurush Irani – our Head of Operations and Business Transformation Project. I also have our Compliance Head and General Counsel, Babu Rao.

Thank you Anuj for the opportunity and thank you for hosting us. I will be referring to the 'Investor Presentation' that is uploaded on the 'Investor Section' of our website.

Let us quickly jump on to Panel #4. I will be essentially referring to pages four, five, six, seven, and eight, and Panel 43 and 45 and then be opening to questions. We have tried to write it in a self-explanatory manner, but I will still read them out to make sure there is clarity on what we are trying to communicate.

Overall, we are all aware we just went through very severe second wave. Clearly, the quarter was a muted quarter, that is not the word that I have used in the last 14 years of doing four quarter each and this is in a way 56 quarter that we are doing, but that is really what pandemic does. It was a muted quarter impacted by severe second wave of pandemic, both business and Management efficiencies were affected due to strict lockdowns across most parts of India.

Overall, as I have said in two calls that we did during this period sometime in June and one at April end that it has been an emotionally hard quarter given the number of deaths we have had actually in the company. Despite that, the show goes on. The business transformation remains on track for phase one go live in October ’21. The company still continued to remain in business reasonably aggressively through Q1. As a result of that AUM grew to 1,59,000 crores, OPEX to NII came down to 30.6%, PAT just remained a tad above 1000 crores as 1002 crores, a year-on-year growth of 4%. ROE came at 2.7% not annualized that gives a 11 odd percent run rate and net NPA which is really where the big buck was, we had a warning to that affect in our June 4th release moved from 0.5%, which was again not relevant due to moratorium. Having said that, it is year-on-year number, so has to be represented and came in at 1.46%.

Let us just dive deep into the numbers:

Let me go to Panel #5. First of all, I must state the year-on-year numbers are not comparable. Last year was a complete lockdown till May end, this year is in part, last year there was EMI moratorium, there is no EMI moratorium this year, so they are not comparable at all, it is a first point I must make. Overall, core AUM growth was 4,100 crores, from this I am knocking of 2,980 crores of IPO financing book, I am knocking of the interest reversal adjustment as you can see below, so core growth in Q4 was 9,500 crores, core growth in this quarter was 4,100 crore, mainly on account of B2B business dialing down. Essentially on a quarter-on-quarter sequentially, if we had a normal quarter and did not have second wave, that book normally sequentially goes up by 4,000 to 5,000 crores, so actually the biggest part of impact is actually on account of urban B2B and rural B2B business, but it is what it is.

The core growth was 4,100 crore. If there is no third wave and life stays even the way it is at this point in time since let us say I would say June 21 onwards, I would say we expect the quarterly AUM growth rate for the balance to be at pre-COVID level, as I said if there is no third wave and life continues the way it is at this point in time.

We booked 4.63 million accounts. We acquired 1.88 million new customers, there was atleast one good milestone that we crossed, 50 million customers to end the quarter at 50.5 million customers, overall a growth of 17%. Cross-sell franchise stood at 27.5 million customers.

Total geographic footprint was at 3,113 locations, 115,000 distribution points. We added 125 new locations, we started our financial inclusion journey. We added 50 locations where there is no bank in Q1. It was part of the plan, there is plan to open 50 more such branches if this pilot was to run successfully in the fourth quarter of the current fiscal. The company also added 49, just below 50 branches in existing locations and mainly 25 standalone gold loan branches in two cities in India. We are now going bigger into gold loan.

As you walk into it, we open 13 branches in Jaipur and 12 in Vizag, and 24 dedicated branches for FD we launched in Q1 as well. Overall margin profile adjusted for interest income reversal remains and as a result of cost of funds going down, otherwise remains steady across all businesses. The interest income reversal came in at 451 crores. Last two quarters were real, the first two quarters were place card so we have taken a place card number of 306 crores knowing fully well this would come. Last year number were place card, but this year is a real number which is 451 odd crores. We are trying to pace out the interest reversal that is how we have taken last year's Q1.

Cost of funds, we have guided will continue to go down. It came down to 7.11% overall, as we dial down the liquidity buffer to around 8,500 odd crores, that is one, and even now company has very little CP, less than 1,500 odd crores of CP is what is sitting in the company. We are very clear CP has to go to 8% to 9% of the balance sheet. As that goes in that direction, we will see 7.11% go down further. On Panel 6, deposit book continues to grow giving us granularity on the liability side, its contribution now is at 21% on a consolidated basis. OPEX to NII came in at 30.6%. Several actions were again taken to try and partially mitigate the financial impact and that is how the number is, it saved close to 250 odd crores of OPEX in the current quarter as a result of that action that we took on the quarter basis.

Overall, we expect that this will normalize to around 33% by Q4. You may see jump up in Q2 and certainly closer to this number in Q3, and hopefully, stabilize fully by Q4. The EMI bounce rate that is something that we guide in the street. Overall, we have provided data for April and May and June. This is for July, the overall July bounce rate at a fundamental level has actually come in marginally lower than what it was in on an average basis in Q4. Even this metrics, we did not see deteriorate through April, May, June, so if there is some light at the end of tunnel at this point fundamentally reflects a positive metric is what I would say.

Forward flows clearly were constrained due to the management efficiencies. Overall, things have eased at this point of time, but I am not providing guidance, but overall July seems in line with March or I would say marginally better than March. March as we had, when we had given Q4 results, we had said that we have not seen numbers like this, so it is pretty volatile. If things were to not harden, lockdowns were not to happen again, we are probably better placed to navigate through this. Loan losses point number 11, as a result of being unable to collect from an ECS standpoint were pegged at 1,750 odd crores. Clearly, it is a number higher than even first quarter last year number that we had taken on.

Management overlay provision of 840 crores we consumed part of it, as of June 30th we had 43 crores. Gross NPA, net NPA as a result of outflow movement came in at 2.96% and 1.46% versus the right thing to do is to compare against on a sequential basis rather than comparing year-on-year because last year as I said earlier we were in moratorium. Exiting Q4, we were at

180 basis points, that moved by 115 basis points to 2.96% and 75 basis points and net NPA which moved to 146 basis points.

Given the kind of movement in gross NPA, net NPA, let me just go to level 2. Overall, GNPA for the quarter increased by 2,006 crores from 2,731 crores to 4,737 crores. The biggest bust was actually in the auto finance business. As you go to Panel 43, you will see the gross NPA, net NPA fundamentally other than that portfolio versus December has actually improved, so even versus March some of the businesses are improved, but versus December there is positive movement which is when we were actually getting out of pandemic in that sense, so that is something that I will talk through when I get to Panel 43, but overall, the GNPA increased from 2,731 to 4,737 crores, auto finance as I said worst affected. The AF business GNPA increased from 1,200 crores to 2,426 crores, so just in this line of business, there was movement of 1,227 odd crores. Other lines of businesses which is 159,000 minus 12,000 crores, the movement was only 800 odd crores. Moving to Panel 7, which is the NNPA metric came in at 2,307 crores versus 1,136 crores as of March. Secured contribution moved from 50 odd percent to 74 odd percent in terms of NNPA metrics. Non OTR which is one-time restructuring which was shared in March as well actually moved down from 1,739 crores to 1,300 odd crores either as a result of pay down or as a result of movement from to Stage-2 and Stage-3.

Overall, what we are very clear about is that in the risk business, the true health of the business fundamentally is represented by the GNPA and NNPA number that is the metric that essentially determines the health of the business. It is very clear we are at 2.96% and 1.46%. We are very clear that we will do whatever is needed to be done to bring the GNPA back to 1.7% to 1.8% and NNPA to 0.7% to 0.8% either by flowing through P&L, accelerate or portfolio improves. It is only one of the events that is going to happen, but we are quite clear that towards the long term guidance range for gross NPA, net NPA remains 1.7% to 1.8% and net NPA at 0.7% to 0.8%. Based on that, at this point in time, our assessment is the overall credit cost for the year will be between 4,200 to 4,300 crores for us to be in the corridor of GNPA corridor 1.7 to 1.8 and NNPA corridor of 0.7 to 0.8. This is something that we do not want to tolerate slipping in any given manner. As a result of these events, the consolidated profit I already talked about. As AUM growth was only 15%, so capital adequacy remained strong at 28.5%. Tier-1 crossed 25% mark, so we are very well positioned as COVID eases, as growth stands comes back, we are reasonably well positioned from a capital standpoint. BHFL AUM grew by 24%, capital adequacy of BHFL also remained very strong, BHFL post-tax profit grew 75% from 92 crores to 161 crores. BHFL has now started to warm up to retail clients, has 95,000 customers, acquired 52.5 thousand customers. It is running a run rate now of 40,000 to 50,000 customers in a month. We do foresee that sometime between September and October, we will start to have a run rate of 75,000 to 90,000 customers in a month.

Over to the next panel, today we talked about on business transformation very quickly that at the AGM, we shared the home page and how our consumer app will fundamentally look. It is also uploaded on the investor section of website, please do have a look at it as to how we imagine we would look for customers as we start to roll out in October the entire new digital platform. I have talked about point number 2 as well in the AGM. It is a reasonably large ecosystem of over 2,000 plus screens across all businesses and service modules, 7,000 plus content pages. It is reasonably large work that we have been at for the last eight to nine months, and hoping that we can pleasantly surprise consumers as we launch this. As I said phase one to various investor I have said that as we launch this in phase one, there will be a phase two, phase two being defined as that we perfect it. We have a long list of things that we want to do, so I would say between mid-October to March is when we think we will get to a digital satisfaction, which gives us satisfaction to the work that the team has been at. The wallet business, we got the PPI license from RBI. We launched the business on July 1st, so far we have on-boarded 320,000 customers. We are reasonably on track to originate 5 million customers for our wallet business in FY '22 given the run rate that we have at this point in time and the adoption that we see. Of course, it will have phases, customers have to start to use their debit functionality. Clearly, a team has been created to run and drive that business, but step one is to onboard our customers to start to activate clients.

As we deliver the entire digital platform, we were super clear even last year that the second phase of that would mean significantly enhanced presence or control over the payments business because as you see, the homepage after our products the next component fundamentally is that of payments, so to us it is very clear that it is very, very strategic in nature, but it is also very clear to us that it is very hard to make money in the business so it has to be done from an engagement standpoint and from a retention standpoint of clients on the platform, so it is needed, does not make money, but needed to engage clients. Having taken the strategic call, we do not want to make partial efforts. We have taken the Board approval now, we have so far PPI license gave us issuance, we now want to get into acquiring. There are three-four different modes of acquiring. We expect to see ourselves being present across all the three-four modes of acquiring. We are now beginning to based on post approval, we will build out the teams to build out this business, so there are two licenses that we will apply for which is the payment aggregator license. We have taken the Board approval today and BBPOU license. BFS has launched its app on May 31st.

Let me now jump quickly to Panel #43, which provides some texture and detail on the provisioning coverage and the gross NPA, net NPA by lines of businesses. Fundamentally, as you can see, at an overall bottom block you see that the GNPA in December 31st ending Quarter-3 was 2.86%, it dropped to 1.79% and has inched back to 2.96%. Net NPA was 122 basis points as it went down to 75 basis points and has inched back to 146 basis points, so to that extent COVID has taught us that these things can be volatile, they can oscillate. We do not like it but that is the nature of where we are in pandemic. If you see what I was saying to you that if you see the auto finance business that is really where the, if you see December to June comparison and between December and March at a design level, you have to remember that we landed up taking only 1,250 crores of incremental provisions in Q4. It is not like we took between December and March very high provisions, in fact provisions reduced. We took 1230 crores of provision between Q3 ending quarter and Q4 ending quarter, but as you can see here, the gross NPA of the AF business is really where the movement is, so 11.5% went to 19%, but sales finance business went down from 1.91% to 1%, 3.34% in consumer B2C to 2.84%, 2% to 1.35%, 3.64% to 2.85%, 2.33% to 2.15%, and 95 to 88, so clearly when I was saying that the worst affected was auto finance business of ours, that is what I was meaning. If you see the net NPA, you see very similar play there. From 6% net NPA it went to 12%. Sales finance 24 to 24, 123 to 95, 26 to 29, 145 to 92, 84 to 70, and 56 to 61, so clearly the mover of the portfolio matrix fundamentally in Q1 essentially came in from the auto part of the business for us.

I will just go on to my last slide, that is a little more busier than even this but it will provide some more degree of texture to what the comparison that I did between December and June, you can see lot of numbers here but the numbers to focus on fundamentally is how you see OTR moved which is column number three from 2,000 to 1,300, from 6,000 crores to 6,000 and from 4,200 crores to 4,700 crores in terms of Stage-2 assets. In terms of provisioning, it is very similar except for one thing to remember is that, A, while the gross NPA and net NPA moved, it is also important to remember that it is a repossesable asset, it is an asset that can be repossessed, and we do believe that if there is no continued lockdowns or things were to continue the way they are, we should be able to bring control to the portfolio in the next three to four months' time. That is really all from me, we have provided all the details that are necessary from an analysis standpoint and that we can head to Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Mahrukh Adajania from Elara Capital. Please go ahead.

Mahrukh Adajania: Good Evening, my first question is on NPL, so obviously COVID has impacted auto loan collection, but why is that your NPL on auto is secure, why is that your NPL on secured is so much higher than on the unsecured segment, that is my first question? My second is that what is the proportion of flexi loans if at all there is one, what was the total conversions in FY '21 and also in terms of unsecured loans, are flexi loans or unsecured loans or there is a secure portion to the flexi loans as well? My third question is on your card, basically what is the status of your retail EMI card and health EMI card and also if you could give the NPL movement in terms of slippages for the quarter?

Rajeev Jain: Let us start with the first one, very clearly even in AF or auto finance as we call it, if you look at the numbers, the bigger stress that actually is not even that portfolio because we did not want to keep breaking portfolios and providing data. At a fundamental level, the three wheeler business there which is 30% of the business is more severely impacted. The reason one does not see the pressures of it last year was essentially because we were in moratorium, so out of 11.5 thousand crore book that we have, 4,000 odd crores, 11,347 crore book that we have close to 4,000 crores is three wheeler business, that was far more impacted so that is one part. Two, , you have to realize and we have said that many times that is the only business where we fundamentally deal with mass customer. They are far more impacted, even in wave one they were impacted. If you see the numbers of the same Panel and a full year for last year, you will see there is a proportion of balance sheet to proportion of loan loss were significantly higher, so it played out last time as well and it is playing out this time. On flexi loan, I thought you will not ask me this question given the data that I gave you. If you go to Panel 43 again that flexi loans were converted in consumer B2C, flexi loans we do it as a business in SME, we do it as a business in mortgages, so if the numbers are telling you anything, we are now one year into it. I think this debate should be settled by now and probably I will answer it for one last time today because I have been polite in making the point, but probably today is the last time I am responding to a direct question on flexi. Let me add a point, just before anybody else wants to ask, did we do any flexi loans in the current quarter, the answer is no, so that when we put it to dust once and for all.

To question number three, on EMI card we continue to acquire EMI cards. We acquired, that is also there in the deck, that is on Panel 40. Overall EMI cards, it was 24 million that is on Panel #40 that you will see, it was at 21.5 million in last year same time, it is at 24 million as of June 30th, that is the third point. Retail EMI card spent business, we have capped that business at 50,000 accounts a month. At this point in time, we are transforming the business. The ticket size in that business used to be 9,000-10,000 per account. We became very clear post COVID that unless and until it is 14,000-15000 per ticket, there is no economic frame, so that is something that we are as a result it meant category changes and so on and so forth, so we are doing it but it used to handle 150,000 accounts a month, we have capped that business at 50,000 accounts and we are continuing with the business and with a high ticket size and it is profitable to that extent.

Moderator: Thank you. The next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: Thanks for taking my question, firstly two data points, in terms of the write-offs how much it would have been and post that there has been this kind of an increase in GNPA and would decrease in provisioning coverage from 58 to 61 would that be largely on account of maybe when we look at i write-offs

Sandeep Jain: The write-off is approximately 950 crores for the quarter, balance is the addition in the provision that you will see in the statement as well. To the other question in terms of movement of numbers in terms of GNPA, etc., it is largely concentrated around the auto finance business vertical.

Kunal Shah: In terms of restructuring, so you said like it is either moving into Stage-2 or Stage-3 and that is the reason it is coming off, but broadly maybe under OTR-2 also there would have been request, so it is implemented or maybe this is OTR-1 which has come up and we are yet to implement the requests which are there under OTR-2 and there could be more restructuring additions?

Sandeep Jain: The request for OTR-2 has been very little so far. We have not seen lot of customers coming and seeking OTR-2 unlike what we have seen in OTR-1.

Rajeev Jain: Just to add to what Sandeep is saying, it is also reflecting in default rates or bounce rates. If that was high, you would see high OTR requests, that number has actually gone down, so just to correlate the point.

Sandeep Jain: To your previous question on the provisioning coverage ratio, it is going down marginally versus where we were in let us say December and March. That is mainly on account of customer moving from Stage-2 to Stage-3 and being early delinquency in Stage-3 rather than going into **complete** delinquency.

Kunal Shah: In terms of wallet you said that maybe it does not make money, but any kind of burn that would happen or maybe the kind of cost we are planning to incur given that we are looking at onboarding almost like 5 million odd customers, so finally how much would be the cost, definitely there would be an enrichment plan as well to ensure or maybe retention of the customers, but would we be burning money and it could really impact you, if possible to maybe highlight that?

Rajeev Jain: It is a fair question, do we foresee that. Based on customer segmentation, it could go all the way to dropping Rs. 150 per client account it is possible, but the large part of the frame is actually built on our entire voucher management infrastructure that you have created which generates offers from our retail ecosystem, which is what is going to drive that on second usage, he will get money dropped into wallet so there are various promotion frames. On an aggregate, however, you should assume that we will land up spending investing anywhere between Rs. 75 to Rs. 100 per client in warming him up to a wallet account and that is planned for.

Kunal Shah: Okay, and when we highlight in terms of OPEX-to-income ratio that is broadly considered while getting into that number?

Rajeev Jain: Yes, because we also significantly foresee much higher velocity in the process, so the answer is yes.

Kunal Shah: Lastly in terms of the rollout, last time it was quite a detailed one in terms of within all the market places, how we are seeing this rollout, so many of them would have already got implemented but maybe if you can further highlight in terms of what it has been out there in terms of the various market places and what is pending and until October what are we planning to implement in the phase one?

Rajeev Jain: E-store is now reasonably warmed up, just to give you texture, 4.6 million loans are that we did, 120,000 loans came from between attribution and contribution directly from E-store. In that, the June number was actually 60,000. We foresee that we will be doing 150,000 odd accounts by October-November. We are lot more confident of this integration increasingly between the omni-channel frame. It is our first big test on omni channel that is a call received by the customer from our point of sale person in 15 minutes time either by him or her or the retailer, so that is something that we are lot more comfortable with and confident of and we are beginning to see that reflect that in numbers. It is obviously hard, but I think we are lot more confident that we will continue to deeply integrate the E-store ecosystem. Same thing will happen as on October 31st the insurance market place and the investors market place goes live, so clearly the omni channel frame is about integrating offline-online, online-offline and just keep tightening the screws between offline to online to reduce friction for customers. It is hard, but we are clear that is the only way to play and we are comfortable with it.

Kunal Shah: Okay, and partner one app and merchant type is also very much on certain terms?

Rajeev Jain: So merchant one app will be one that will be consumer app which will go live between October and November, Anurag is looking at me, it is January that is correct because that will go live in January of phase one of merchant app will go live in January, that will in a way further augment the retail EMI spends business. Our new avatar of retail EMI business to the earlier question is actually linked to a new merchant app ecosystem, so that will go live phase one of that in sometime in January is when it will go live. Partner one app, we are now aggregating the whole thing into one place, anybody wants to become a partner of the company will go through this single interface. We expect that to go live also between February and March, so in a way we have lots on our plate and our hands full, but anyway COVID is creating more volatility in the business, might as well spend our time getting business lot more ready for the future.

Moderator: Thank you. The next question is from the line of Aditya Jain from Citigroup. Please go ahead.

Aditya Jain: Thank you. In the presentation there is mention of wallet business about 320,000 customers added since the launch on July 1st so it is sizeable number, so could you talk about how much of it is let us say completely fresh customers are and how much are coming from the existing customer base and then related to this, the 5 million target for wallet, does that assume again some Cross-sell from the existing customer base and is that Cross-sell assume sizeable and how much of it is fresh customers?

Rajeev Jain: One it is all existing, but two they have to open the account, so they are fully KYC so that reduces friction, that is level one. Our focus is not on new customers, as the ecosystem develops new may happen, but we do not need new customers but it is not automatic let me just make that point. We are going to land up doing let us say 1.6-1.7 million customer run rate on any given month, but of that as you can see so far till 18th only 320,000 happen. They have to open the account, so there is one hop, so it is not automatic, there is an hop. He has to register, he has to accept.

Kurush Irani: For us because they are full KYC customer, majority of our customers or the wallet is open at the point of sale, so 70% is at point of sale and 30% is at home and because the customers are full KYC, we are able to open a full KYC PPI wallet. It is a one extra hop in the app where customer has to take the consent.

Rajeev Jain: Based on the is promotions that we talked about, we may do voucher drop, we may do money drop.

Kurush Irani: As Rajeev said the whole frame for payment for us is around the reward currency. Since we work with the 100,000 merchant, we work very closely in terms of the voucher management frame which are a co-opted in terms of the promotion and that will be the core heft on the PPI for us.

Aditya Jain: On the safe finance in both rural and urban, while the GS3 has not risen much, but GS2 increases in the quarter are fairly high, so one behavior here is fairly different from the personal loan side so what is driving that and then going forward does that mean a different expectation here so in the next quarter onwards would be increasing in the sale finance side in rural and urban?

Rajeev Jain: Can you just repeat Aditya.

Aditya Jain: Sorry, my question was the GS2 increase in sales finance both rural and urban is fairly high although the GS3 increase is not high, but the GS2 increase on a percentage basis is fairly high so does that mean that there is, would you expect a reasonable amount of this to convert to GS3 in the next quarter or is there expectation that there should be more recovery from this?

Rajeev Jain: You meaning Stage-2 when you GS2?

Aditya Jain: Yes Stage-2.

Rajeev Jain: Fundamentally if you look at the Stage-2, the fundamental difference between sales finance business which is both sales finance business which is sales finance and rural sales finance and versus others is it churns very, very rapidly, that is the only fundamental difference. Churns very rapidly, flows very rapidly, washes very rapidly, I mean that is the only distinct difference between this business and rest of the businesses, and that is all you should read from this and nothing else is all I would just say, Aditya. I do not know whether I am responding to the question that you are asking.

Aditya Jain: Maybe enough for now, but just last question from me on restructuring, could you just give us qualitatively which segment the restructuring is more within the different product?

Rajeev Jain: On Panel 46 as you can see if you go to Panel 46, the OTR is there for 670 majority is as of today sitting in mortgages 700 crores and 400 crores in sales finance and very little in, the numbers are right there.

Moderator: Thank you. The next question is from the line of Rahul from Goldman Sachs. Please go ahead.

Rahul: Good Evening, Rajeev two-three questions, number one on the wallet side clearly I think you are revitalizing the used case of wallet by talking about the voucher management, but looking about three to five years out eventually what really would be the game plan of this because I understand this and correct me if I am wrong, but there are discount options that are available in cards also, co-branded expanded cards, which can be useful for reward management etc., and this wallet always existed so is it a critical part of the strategy that overtime we get into other lower ticket size items through wallet that is question number one? Question number two is on the payment side, how critical the payment piece is going to be for the success of this platform and in payments we already know that there are various types of form factor which are available for both customer centric and merchant centric, so which part of the ecosystem are we looking to target?

Rajeev Jain: Fundamentally Rahul, I will answer the first part, Anup can cover the second part. The first part is meant for our existing customers. Number two as I said earlier, the second component after our product offering is payments. We are seeing payments as they single checkout page will be following. EMI card, credit card, UPI, PPI, and reward just currency, this is because rewards will come in by January, February, but this is the single checkout page strategy that is where headed to at a fundamental level. This is how important, integral, and critical payments to us is. When we launch on October 31st you will see UPI, PPI, credit card, and EMI card. The fifth one rewards will come in sometime between January and February, so that is one part. We are also very clear that this is what will create stickiness and engagement, so as we said earlier Rahul this is burn frame that also we are clear about. It means burn, but when we look at various players in the market, the only thing that we found lacking was that people are doing more, nobody is doing structured reward management work, everybody is essentially doing when people want to acquire customer they throw in money, and they go away. Three years ago, lots of millionaires in my office were all using Paytm, then they started using Google Pay, then they started using PhonePe. People want to acquire customers, throw money, burn half a billion dollars and go away. We do not have that customer acquisition problem, we are generating, we have 50 million customers, they are fully KYC that is the second point I must make. Three, we continue to acquire 1.8 to 2 million customers in 3,000 cities in India, engagement is really where our entire focus is, that is really why the digital acceleration stroke transformation is there. In that, payments is critical. Why are we bringing it now because we had to first get the money making machine going, then we will get the engagement machine going, so you will see on as we go live in October these single checkout page across these four so that is a strategic phase. Now, let us talk about at a mechanics level and how broad we are looking at playing the PAPG and Anup can cover that in a moment.

Anup Saha: At an overall level as we bring out 3-in-1 asset live to consumer, what we are missing is the high frequency transaction, so as Rajeev said payment fill that gap for us. Second is we do not have a challenge of consumer downloading the app because our point of sale is where we get maximum of our customers and as we get them in for the payment, they stay with the app because payment is a daily transaction. However, in terms of our EMI transaction, credit card transaction, loan transaction all of that will be available in the app. Having said that, that is the PPI licenses where we believe we can originate significant amount of our acquisition in terms of customers and payment, what you are now bringing because if you want to play the payment, you need to play the full stack payment which is what we have now taken approval on the acquiring side of the payment and also the Bill Pay OU license, these are the two licenses we are now going to apply to RBI because the other plan for us is we are available in 3,000 cities.

We have point of sale people on 3,000 cities where the real payment, the transformation will come because what you are seeing in our market by market is the adoption of digital as we go beyond the 120 market is dramatically very high. Our presence in 3,000 cities is going to cover that and in a way if you break this up into population, two-third of population is sitting beyond the 120 cities and I think that is where our key heft is. Having said that, the bigger city as well we have dominant market share in our counters. Consumer acquisition cost we do not need to spend. We can get them downloaded at the point of sales, payment ensures that the daily transaction happens and they remain sticky on the app. The offline retailers need a solution to get the customer on the store and which is where they contribute along with us in the reward framework, so when you look at reward as Bajaj Finance we do not need to burn all the money ourselves. The 100,000 merchants are participating on an ongoing basis and as we bring the asset, they get a sub wallet to spend as well.

Rajeev Jain: To the last one, I think Anup has made extremely important point that outside of 100 cities, the distribution does not exist. The second important point that he is fundamentally made is on offline retailer. In the last three years, there is lots of noise and competitive activity at point of sale. At a margin profile level, our margin profile improved rather than deteriorated. It was very easy call for us to let us say we also burn money because we need this customer acquisition, we never let that happen. That is really how voucher management frame was born being able to originate vouchers from merchants or making them participate in the frame.

Rahul: This would be a one-time cost when the customer downloads the wallet and activates on it, do we need to, this would be recurring feature to keep the customer active because of course the competitive landscape as you rightly pointed out still remains you know fairly?

Rajeev Jain: It will be determined by customer entry, larger than customer entry we see, N is equal to 1 will determine that, quite honestly so credit card rewards to the point Anup is making we already burn at stores. We have reward points on Bajaj Finserv RBL credit card, you can burn them today at the point of sale. We have been doing that now for the last one-and-a-half years, so we will keep ring fencing the customer around it through this frames is really what we are clear about our and are burning a hole through the P&L.

Anup Saha: At a design level PPI, UPI are small ticket transaction as you go to larger there are the credit card and the EMI card transaction and reward comes in for split and pay because down payment is adjusted to reward and today we run that burn for 100,000 merchant with our credit card reward, so as we bring in all the four instruments of reward, that kitty of reward becomes far larger for the consumer.

Rahul: Just final follow up on this, so would it mean that we will also need to get into the offline POS or that would be done via our tie-up with RBL?

Rajeev Jain: We are very clear that we will do offline, as Anup says 75 cities and above is non urban and beyond 120 markets nobody is there. It is a problem that needs to be solved for and as Anup says, we are there. We are physical as I said in AGM, we lend, collect, and deliver the last mile so we have looked at all three form factors. Post approval, we will build our teams. We are not doing this with a short-term view, we are doing this as a full-fledged business, warming up to issuance, now we will start to warm up to acquiring.

Anup Saha: Also on the acquiring as Rajeev said you will have the QR based acquiring which is the all-in-one QR with the all four instrument live on it. You will have the point of sale QR which is the physical machine depending on the type of merchants and you will also have the online acquiring business which are the high-velocity business, so as we are applying for it we are applying for all and since unlike the other players we have point of sale people they are in 3000 markets, we will be able to bring that at a significantly lower cost.

Rahul: When are we going live with this offline POS and all?

Rajeev Jain: It will take time Rahul. We have to first deliver October 31st the consumer app. As I said in January we are launching merchant app, with that we will go live the QR, so QR will go live along with the merchant app, so that is one part, but again I must just say that these are strategic frames we will start to peel them as we get into deeper and deeper into consumer financial services what we rolled to around, so QR in January along with merchant app and you will hear from us overtime on rest of the sales as we get license from RBI to go out.

Rahul: Just one final question on asset quality, so excluding AF the performance is pretty solid as it appears, what would you attribute this to, is it the reflection of better selection over the last 12 months or generally the market itself has now matured and the underbelly of 10%-15% customers have been written off in general across the system?

Rajeev Jain: Our bounce rates fundamentally represents default, I am super clear about that, so in fact you can ask me the counter question then we should not say the loss will be this much, one could argue that but we are in uncertain times, we do not want to guide wrong and I want to deliver 1.8% gross NPA and 60-70-80 basis points net NPA so we are keeping that to me is non-negotiable. The formal trade represents, the default rate let me give you one texture even exiting moratorium in October, November, December last year, the bounce rate were running at 2.2 X of post morat being February what it was to what it opened and what it remained in October, November, and December that is not so the case as we just articulated in June and as we articulated in July as well, but I just want to make sure that we tie it through July and August. If there is no disruption in July and August, it is possible that we are sitting in a better place.

Rahul: But Rajeev when we see the NACH data, it still appears to be around 30%. Pre-COVID was about 24%-25%, I understand there are various nuances to this data, but that is what it appears to be for the whole system?

Rajeev Jain: You have to just remember Rahul there are various aspects to this and let me give you textures so that we are all clear because when we peel the onion for you you guys, even the Stage-3 customer is banked, please remember. If I have written him off, I may write him off but I will keep banking or every bank will continue to bank him, please remember this. I have an obligation or the banking system has an obligation to continue to bank. Current bucket bounce is really where the frame is, you were not in default last month, you are in default this month, that represents current bucket bounce rate, so I can peel this for you in various ways, you are just looking at and that represents many, many other aspects of SI and so on and so forth. We are giving you 15 million, I cannot speak for rest.

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

Kuntal Shah: Two data points is that one-fifth of your auto finance loan is now in GNPA and at the same time, we are now you said bounce rates are stable but provision coverage ratio has dropped from 65 to 51, so is it your assessment that many of these earning assets will come back online or can be repossessed and there is some recovery there that is why the provision coverage is kept low or how do we read this provision coverage also going down in view of the rising GNPA?

Rajeev Jain: You can read it in point number, if you see the mix on Panel #7, NNPA was 2307 versus 1136, 74% of this is now secured, so the mix has really moved is really now you should see. Earlier to the point that I made to Rahul, we do foresee that while auto finance has moved dramatically, the repossesability as clients flow should lead to significant improvement but I cannot bet on it or bank on it and that is why when account flows I have to provide for.

Kuntal Shah: My other question is on our reliance on one bank for the credit card partnership and one service provider, Master Card, are you planning some second partnership?

Rajeev Jain: We are going live with DBS sometime in end November or early December.

Kuntal Shah: My last question is on the friction between market place and the OEM products which go concurrently, see if I buy an asset turn aggregator in the market place but I want to and subsequently borrow from Bajaj Finance all those kind of interoperability issues will come in and will there be a friction, how do you capture the transactions between the two market place, your market place and the Bajaj Finserv market place?

Rajeev Jain: There is no two, there is only one, number one. If you are our customer, you will use your EMI card, create a loan and walk home, number one. Two, we are bringing a whole host of partnerships onto that platform so let us say Samsung is going straight in a way using EMI card. Samsung now is going straight to the consumer so in a way for Samsung and LG who have the SKU infrastructure, inventory management infrastructure, we are working with all manufacturers now closely to go direct. In fact one of the outcomes of it has also been that it is helping manufacturers go direct and they use essentially EMI card or credit card to do the transaction, that is really how the conclusion of the transaction Kuntal is.

Kuntal Shah: What I meant is suppose if I buy an asset on the aggregator platform through some third party but want to like borrow from Bajaj, how it will work?

Rajeev Jain: No, we have to stitch that is the whole point. As we stitch our, the way it happens today on Amazon and Flipkart let us say 200,000 customers or 250,000 customers in a month use EMI card on Amazon and Flipkart as a payment instrument as we stitch more and more of such partnerships, more and more EMI cards can then be used for the same. We are doing that with e-commerce, we are doing that with MakeMyTrip, we are doing that with a whole host of travel EaseMyTrip and so on and so forth, on professional courses, so wherever we have bilateral relationships, EMI card is used as an instrument to grade a loan.

Anup Saha: If it is a aggregator then our product gets in as an instrument. When it comes to our e-store, the retailers are also brought in by us and the instrument is also available for use, so we work both off and on a sell.

Moderator: Thank you. Ladies and Gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Anuj Singla for closing comments.

Anuj Singla: Thanks Rituja. Thank you very much for the Management of Bajaj Finance and Rajeev for giving us the opportunity to host you. That concludes the call for today. Thanks everyone for joining and have a good day.

Rajeev Jain: Thank you.

Moderator: Thank you. On behalf of Bank of America Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.