"Bajaj Finance Q2 FY-16 Results Earnings Call"

October 20, 2015

MANAGEMENT: **MR. RAJEEV JAIN – MANAGING DIRECTOR, BAJAJ FINANCE**
MR. RAJESH VISWANATHAN – CHIEF FINANCE OFFICER, BAJAJ FINANCE
MR. SANDEEP JAIN – HEAD, INVESTOR RELATIONS - BAJAJ FINANCE

MODERATOR: **MR. KARAN SINGH – VICE PRESIDENT (RESEARCH), JM FINANCIAL**

Moderator: Ladies and gentlemen good day and welcome to the Bajaj Finance Q2 FY16 Results Conference Call hosted by JM Financial Institutional Securities Limited. As a remainder all participant lines will be in the listen-only mode. 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. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Karan Singh. Thank you and over to you sir.

Karan Singh: Thank you and good afternoon everybody and welcome to Bajaj Finance's Earnings Call to discuss the second-quarter results. To discuss the results we have on the call Mr. Rajeev Jain who is the Managing Director, Mr. Rajesh Viswanathan who is the Chief Financial Officer, and Mr. Sandeep Jain who is Head of Investor Relation. May I request Mr. Rajeev Jain to take us through the financial highlights, subsequent to which we can open the floor for Q&A session. Over to you sir.

Rajeev Jain: Thank you Karan, good afternoon to all of you on the call. We have done a press release and we have updated the Q2 investor presentation on our website. Overall a pretty strong quarter for the company, a quarter of reasonably granular growth across all lines of businesses for us a company, the volume momentum was pretty strong we acquired a record 1.4 million new customers in Q2 as a result the assets under management closed the tad below 38,000 crores to 37,964 crores. Profit before tax grew 43%, PAT grew 42%, these numbers came despite 31 crores accelerated provision that we took in one infra account and some mortgage accounts adjusted for that, without adjusting the loan loss and provisions have grown 71%, adjusting for the one-time accelerated provision that we have done the number would have grown by 33%. So the credit quality remain very stable gross NPA and net NPA improved sequentially. On a year-on-year basis they are not comparable because until last year there were published as 180 days right now we're publishing 150 days as required by RBI. Provisioning coverage improved to 73% as a result of the accelerated provision that we took. The net NPA came in at 46 basis points so a pretty strong quarter.

The consumer businesses continue to grow we increasingly are dominating the consumer businesses as a company, all put together the consumer businesses grew 42%,SME businesses grew tad below 30% at 29%, the commercial businesses as we are investing and launching new lines of businesses are growing well they grew 26%. The rural business the base is very low but grew close to 400% but as I said the base being low, but the important thing is we are now present in we launched MP in Q2 on September 1, in Q4 this year we will launch Rajasthan. So clearly out of the top five states in India on various parameters that are published by the end of this fiscal we would be in four of them, sorry out of 6 top states we have identified based on various parameters we should be present in five of them by end of this fiscal. So I would say a quarter of pretty strong growth for us, we are looking at quarter 3 with bated breath next 30 days are very critical for us as a company and for any consumer facing company. We are very well prepared as a company we just launched large above the line campaign backed by a transformation in EMI space, EMI finance space with the mobile app. In the first four days of the launch we received close to 12,000 customers who have applied and 9000 customers who got approvals, with an average lines as 40,000. We are quite excited and quite prepared for hopefully a strong Q3 if the consumer comes that is the only caveat. With that I would open it up for questions and happy to take.

Moderator: Thank you. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Sameer Kulkarni from Vantage Securities. Please go ahead.

Sameer Kulkarni: Looking at latest Flipkart and Amazon sale, e-commerce sale how do you see your participation in that space?

Rajeev Jain: Right now we do seller finance for them, we did in Q2, in the seller finance space we just about disbursed we worked both Snapdeal and Flipkart at this one and time. We essentially finance as sellers, we are not doing consumer finances with them, we expect consumer finance to start with one of them in the fourth quarter. We did close to 50 crores of seller finance in Q2 and we did lending to 140 sellers. Consumer finance sometime in Q4 one of them will start both of them are working with us and because it is a technology change for them to start to offer EMI finance, we expect that should happen sometime between Q4 of the current year.

Sameer Kulkarni: How do you see the potential of this business going over next 2 to 3 years?

Rajeev Jain: Everybody is excited about e-commerce and if that is the direction that the consumer behavioral is taking we are reasonably well prepared, we are reasonably tech savvy as a company I would say that we have a reasonable cutting edge from tech standpoint we have as I said we have launched India's first mobile app five days ago so we are very well geared to meet the needs of what e-commerce companies want which is technology orientation, large customer franchise and agility. We think we could in the long run be a large provider of financial services to large e-commerce companies.

Sameer Kulkarni: Over next three years how do you see your balance sheet size growing to?

Rajeev Jain: I think a 25% balance sheet growth should happen on a three-year horizon with 20-25% net income growth as well.

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

Ashish Sharma: On the growth number you had already sort of given a caveat that next 30 days are crucial, but despite no seasonality in the first half we continue to grow quite strongly, so on the growth assumptions your take on that?

Rajeev Jain: I think next 30 days we grow well probably between a 30 and 35% growth should then be in the bag for the full year, because just the momentum and the readiness with which we are prepared for Q3 takes care of the balance of the year, so we are on while in consumer businesses people see we as a company run something called October fest in the company until last year we used to run for 30 days now we run for 60 days. Company “in October-November” this year is working 15 hours a day and with backed by very strong value propositions for customers, value propositions for employees, value propositions for merchants, value propositions for customers it is a 360° plan which gets planned every year 60 to 90 days in advance and the volume we deliver the next 40 days just the sheer volume, just the sheer momentum then takes care of the balance of the year. So let us watch for next 30 and we just launched that 1 app 3 steps, I think it is a big strategic shift, a transformational shift that we are making after seven years we think this could be the way we will underwrite customers for EMI finance in the next two years’ time, you won't have to go to the store at all. We think in the season itself in the next 30, in the first four days 12,000 customers have applied and 9000 have got approval every hour 150 to 200 customers are applying at this online. So it is a transformational shift that we have made, as I said backed by cutting edge technology because you would fill only four fields it is aadhaar enabled, Google plus enabled, Facebook enabled it is backed by strong application scorecard at the back end so, the change way we underwrite EMI finance in years to come.

Ashish Sharma: If you see the mortgages and other secured assets sort of a composition and in terms of individual growth, LAP has sort of slowed down, so you see this to be normalized growth levels or you see some pickup in that?

Rajeev Jain: We are making transition from indirect to direct, I have talked about it over the last two quarters now 35% of our business comes from direct which was 20% a year ago by March I think that number could be 60 to 65%.

Ashish Sharma: So from 35% to 65%.

Rajeev Jain: Yes would be direct. We are in the middle of making the transition and in the process we are not chasing volumes, so self-employed home loans and salaried home loans quarter four which is April 1, Q1 we transitioned salaried home loans 100% direct. It is already beginning to give us dividends. In Q2 this year we transitioned fully to direct in self-employed home loans. Q3 and Q2 we also started to accelerate our loan against property direct to customer. As we make the transition fully in the next six months’ time, 6 to 9 months’ time we would be in a much better place to start to grow. The growth currently in the form that it is in, is not a very profitable growth, then why chase volumes, but a direct growth is much more profitable and much more sustainable in our assessment and our experience and there is too much hyper competitive intensity in the LAP market so we are quite happy to stay away from it, transform our business model and get ready to create a more sustainable business rather than trying chase volume at this point in and time and there is madness in the market.

Ashish Sharma: On the cost to income ratio we have seen a sharp compression in this quarter, we have seen cost to income ratio going down from 45 to 42%, is this the normalized or …?

Rajeev Jain: Salaried home loans, self-employed home loans all direct, professional loans only direct. This is really how the color will start to change dramatically as we go more and more direct using our franchise the distributor margins will just vanish and that will deliver sustainability on one side and two augmented profitability on the other. You will see third, we have made investments over the last 2-3 years as operating leverage gets delivered Ashish you will see that also play out.

Ashish Sharma: One clarification, in the presentation you have not given the deployment numbers for LAS. I think you had mentioned last time around there is some technicality so…

Rajeev Jain: LAS is not relevant because it is AR based business, so you can borrow this month and pay me in 10 days, deployment for we have left it vendor financing which is PO which matures every 45 days, no point in giving, every time the loan gets created. Similar with LAS, the metric to follow LAS and vendor financing is receivable AR rather than deployment that is why we have not given.

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

Aditya Pande: My question is on Net Interest Margin**,** net interest income has grown by 44% while the AUM has grown by 36% so can you please give us some color on why net interest margin has improved so much.

Rajeev Jain: Two things, as you will also see the consumer business grew 42%, that's a higher margin business that is point one. Point two, the 50% of the book is a fixed interest rate book and 50% is variable interest rate, between April and September cost of funds have gone down by 38-39 basis points so that the second point. Third clearly as a result of volume velocity the fees comes in at the point as the volume grows so that is the third dimension. These are the three drivers. Fourth sorry we raised capital at the end of Q1 so there's clearly 28 to 30 crores impact on account of "capital is not free" but there is no interest cost to it. These are the four drivers.

Aditya Pande: On the loan loss provisions side, what has caused the increase in this LLP?

Rajeev Jain: It has not caused an increase basis our assessment and prudence, we took accelerated provisioning to the tune of 31 crores in one infra-account and in some mortgage accounts, so based on the conservative estimate and prudence we have taken a 31 crore one time provision in both these portfolios in Q2.

Aditya Pande: Is there is any chance this will continue in the coming quarter?

Rajeev Jain: In Q4 last year we had taken 10 crore accelerated provision, in Q1 we did not, we took only 1 crore so it is based on our assessment of the credit, assessment of the account and based on that, we also have to satisfy our statutory auditors because the numbers are not small it is a 31 crore number. It must be backed by credible information and data.

Aditya Pande: One last question on the housing finance company that you have formed, can you give us some texture on that?

Rajeev Jain: See 40% of the portfolio is mortgages, 15% is pure home loans between self-employed home loans and salaried home loans, so clearly we understand the business well we have done it for the last 6 to 7 years we thought the size, we have reached a size where we deemed it appropriate to grow this business in a separate subsidiary there are clearly benefits that are available to whether it is refinancing or ability to borrow more from mutual funds, or do ECBs so there are clearly benefits that are available but more higher gearing in a low margin business unlike the clump of assets that we have in BFL, so based on that it is our assessment we applied for a license nine months ago we received it 10 days ago, sometime between in the fourth quarter by middle of fourth-quarter we should start to book assets in the housing financing company.

Moderator: Thank you. The next question is from the line of HR Gala from Panav Advisors. Please go ahead.

HR Gala: I think the numbers tell a totally different story than what one looks in the newspaper and TV channels of faces being blacked out, Hardik Patel and beef things like that. So how do you see the ground reality shaping up in rural areas and some of the other areas where we are operating?

Rajeev Jain: We are very small, we are nobody to comment on ground reality, but in management discussion we have published facts. Facts show that auto sector growth whether for PV, CV, 2 Wheeler they are very-very anemic PV grew first half 6%, CV grew 7%, 2 Wheeler is negative growth of 0.36%, three wheeler is negative 10%, stressed assets in the banking system at 11%, housing market in our assessment is at a 15 year low and we have given the data which is fact, base data, I think the only thing is that we can do as management is to focus on where the opportunities are, our size remains low as a company we are only 38,000 crores of balance sheet which is just about 55 basis points of the banking system, put our head down and get to work. That is all we have consistently said and that is all we consistently intend to do.

HR Gala: Have you seen any adverse impact of these uneven and subdued rainfall this year?

Rajeev Jain: Clearly, Marathwada we are in the rural markets, we are in Maharashtra between Marathwada from one end to another Vidharbha, Marathwada clearly in the festival season which got launched, which started in Navaratri 7-8 days ago Marathwada, Vidharbha, I mean Maharashtra is very-very soft very clearly. We are not seeing so much impact in Gujarat but Maharashtra is very soft.

HR Gala: What about North Karnataka?

Rajeev Jain: Karnataka is also soft that is correct, parts of Karnataka which also had subdued rainfall is also soft.

HR Gala: Going ahead do you see any increased stress on the assets as result of the economic position in the country?

Rajeev Jain: We have given data, we continue to provide information on a quarter on quarter basis, sequentially year-on-year across nine portfolios that we share which contribute to virtually 90% of the business continued to be very solid. I think ending Q2 we are quite comfortable, is there stress in the system, yes there is stress in the system do we need to continue to work hard to manage the stress, yes we have to. The best way to manage stress is not to get into stress we don't lend to potentially stressed accounts I think that is really all we can do.

HR Gala: As we go more to the direct business do you see our own overheads will increase in terms of the manpower and other infrastructure?

Rajeev Jain: The key to that is to invest in technology to make people more productive, will the salary costs rise, yes but will the overall productivity gain which means flowing into the P&L be more the answer is also yes, if you did this smartly which is using technology, using customer franchise, creating propositions for our customers so the net answer is cost will rise but productivity will rise faster.

Moderator: Thank you. The next question is from the line of Lakhsmi Narayanan from Catamaran. Please go ahead.

Lakhsmi Narayanan: Just want to know more about technology where you were mentioning that the number of loans that is getting applied per hour is almost like 120 want to go understand?

Rajeev Jain: Fundamentally we just launched a mobile app which essentially allows you to download, fill in your details or use Aadhaar, it is Aadhaar enabled, it is Google plus enabled, it is Facebook enabled if there is information which is in public space we would capture that information we would allow you to apply, choose the product that you want and based on application scorecard fraud algorithm, bureau hit give you an approval in 60 seconds. So 12,000 customers in less than 4 days have applied and 9000 have received approvals. So clearly our problem statement was that on big days let us say Dussehra day we would originate 60,000 applications there are in large store there can be queues, last year we tried the mobile app it was not that successful, this year we are much more prepared and we are backing it up with an above the line campaign with both press and radio and clearly we are seeing momentum, we think it will transform the way we have so far done point of sale purchase or underwriting.

Lakhsmi Narayanan: Essentially this act of point of sale is in brick and mortar?

Rajeev Jain: No, you can download the app in fact it is GPS enabled if you're sitting at your home that's the address it will fetch as well. And you can get an approval and then go with your family to the store and buy the product. You have to if only give it to that boy deal ID which would come to you he would login the deal ID and all your details that you have provided will be there he will just log in the product that you are purchasing and you can move on. So it is a transformational shift and we think this is the best way to manage customer experience at the store, best way to manage scale as we go forward and the direction which consumer is taking which is mobile.

Lakhsmi Narayanan: Is it something similar to the EMI card which you already had or…?

Rajeev Jain: EMI card has also gone virtual we have now given to all our customers those who did not have any EMI card, with virtual EMI card number so they can walk into a store, we have 12 million customers 8 million best customers as published in the Investor Presentation out of that 8 million only 4 million have EMI cards, balance 4 we have now given a virtual EMI card, so they have got a number they have got to just flash that number and they can walk in to the store and they have to do no paperwork. These things clearly are creating better customer experience allowing them to borrow or take a loan without having to go through hooks of paper or lots of effort.

Lakhsmi Narayanan: Have you signed up with, you mentioned that you have signed up with e-commerce companies on the seller financing. On the consumer financing how is it?

Rajeev Jain: I think that they were quite busy for the whole billion dollars sale, some of them are talking to us to start to offer EMI finance on the products that they sell from sometime in Q4.

Moderator: Thank you. The next question is from the line of Janhvi Garodia from Motilal Oswal. Please go ahead.

Janhvi Garodia: In investor presentation you mentioned two products one is a developer finance product and the other is wireless carriers of financing package products. Could you explain the nature of these products?

Rajeev Jain: Developers finance is nothing else but as part of the core home loan business we think off the home loan balance sheet 10 to 15% of the business would have to be developer finance/construction finance because that is the only way to create a meaningful 13 to 14% ROE, we launched that product in Q2 so that is a standard product, our focus is clearly on mid- sized developers who are low on leverage we do not intent to work with large developers. Our intent in Phase-1 last year in April we started doing LAP to developers to test because we did not want to executions/performance risk now we are doing construction finance product or developer finance but again our focus remains on ready inventory or 80% or 75% ready inventory so that we take much lower execution/performance risk. What we are bringing to table to these developers is our franchise. We are using analytics, we are bringing the 8 million customer franchise and telling them that we can help them sell more homes and much faster way to convert their inventory into sales so on one side it creates balance sheet for us at a higher margin than home loans and on the other hand it helps them to sell and if we sell for them we make some fees so that is really what developer finance is.

Wireless carriers, we launched with Vodafone and Apple a tripartite model for their best customers to take a two-year package which would have home financing for mobiles so that is something in progress we launched it, it needs some rework and that is really what we would do we think it could be a large play in future as wireless carriers transition from prepaid to postpaid as a result of data being a driver rather than voice being a driver. So we're working with Vodafone at this point of time we launched the package did not do that well but we are reworking it.

Janhvi Garodia: What is the package?

Rajeev Jain: Package is if you are a postpaid customer you would get an Apple phone with payable in instalments with Vodafone throwing in a plan which would be at lower cost so that will come from Vodafone, financing we would provide and Apple would throw in an added value proposition, so it is a three-way proposition for their postpaid customers or prepaid customers whom they want to convert into postpaid so that is really what the three-way model is.

Janhvi Garodia: You mentioned that there is the decision support system for SME launched in Q2 which will reduce the cost of processing by 50% could you elaborate what is this support system?

Rajeev Jain: Fundamentally what used to happen was our distributors or employees would originate a file, that file would go through processing, we have lent to 57,000 to 60,000 SMEs in the last 6 to 7 years when we crunch the data put it into a decision support model on an average the weight of the file used to be 2 to 3 kgs we found that clearly there are only 14 to 15 variables which are relevant so those are the variables which we used and we converted a decision support system. That decision support system is built on cloud so employee now or a distribution partner has to only take out from the financials and the balance sheet of a client those 14-15 variables based on that he gets an instant approval and a loan ticket as well. What happens is our approval rate in this business used to be 55% because he used to create a file then log it in it would go through verification and then 55% would get approved, now 95% gets approved because he does not login for whatever is reject to him he does not even login that file. So 50% you get the answer, right? Automatically 50% less files will come but the approval on balance of the files would be 95 to 100% .

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

Aditya Aluwahlia: Just want to understand that these higher margins segments we continue to consumer finance will grow faster than the rest of the book so that will continuously help the margins?

Rajeev Jain: I do not know whether it will continue to grow faster but yes as we grow larger in the consumer businesses which are difficult to build entry barriers are strong they require significant distribution effort it is likely we would dominate more and more as our size grows, answer is yes. Would they continue to grow faster depends on the momentum of the market but would we dominate if the consumer supported the answer is yes, if they grow faster, could you see margin expansion answer is yes as well.

Aditya Aluwahlia: As of now in macro outlook you don't see any slowdown or any stress in terms of growth in these segments.

Rajeev Jain: As I mentioned, 9.5% last year bank credit growth this year 9.16% there is no growth, 50% of the mortgage accounts are BT so you have to find growth rather than there is no growth. Look at the first half PV data, CV data, 2 Wheeler data I do not know which growth the real estate market is at 15 year low.

Aditya Aluwahlia: On this accelerated provisioning any particular reason that we did in this quarter?

Rajeev Jain: No there is no reason as I mentioned in Q4 as well we have taken a 10 crore number, we accelerated some mortgage accounts, in this quarter out of 30 crores part of it is coming from one infra account that we have provided acceleration basis and balance is mortgage. There is no reason it is based on our internal management assessment that we have taken.

Aditya Aluwahlia: We heard some housing finance companies also come and talked that there is some increase in stress in the system are we seeing any of that in our LAP book or any other book?

Rajeev Jain: We publish the data, we have again published it so if you see Loan against Property portfolio versus June it is improved in Q2, Home Loans have improved in Q2 so we are quite comfortable with this point of time but if there is stress the answer is yes, new absorption, clearly resale remains at historic low. So you have to very clearly choose your credit and you ensure that you manage your credit well.

Aditya Aluwahlia: If I understood correctly sequentially in our books there is no additional stress or unexpected stress, in the macro you see higher stress now.

Rajeev Jain: That is correct.

Moderator: Thank you. The next question is from the line of Adesh Mehta from Ambit Capital. Please go ahead.

Adesh Mehta: How does the manufacturer subvention work in the EMI finance?

Rajeev Jain: Basically manufacturers sales for a particular SKU they will give us this much financing, so there are across products close to 25,000 SKUs across 26 manufacturers we work with the manufacturers on a monthly basis, these schemes change on a monthly basis so we agree with the manufacturers on a monthly basis on what the scheme would be that gets transmitted 11,000 to 12,000 points of sale that we are present in. Consumers if they take that product on financing at the end of the month by each SKU and an aggregation of that for depending on the manufacturer we raise an invoice on the manufacturer and they pay us this is how it works.

Adesh Mehta: Would this subvention rate differs from in an off-line…

Rajeev Jain: In general it does not differ, the number hovers not more than 100 basis points here and there depending on the volume velocity delivered by the manufacturer.

Adesh Mehta: So on the online app also we should be earning the same subvention rate?

Rajeev Jain: Online app, it is channel rather than anything else.

Adesh Mehta: Any guidance in terms of credit call, should we build in more of this accelerated provisioning going forward?

Rajeev Jain: That is based on judgement as I said in Q1 we ended up taking only 1 crore, in Q2 we have taken 31 crores, is it likely that in Q3 we want to fully provision in infra account of ours could we take the residual 12 crores the answer is yes, but otherwise I would say it is basically prudence rather than anything else. We do not want to under provide nor do we want to over provide but we want to rightfully provide.

Adesh Mehta: How do you see pricing evolving in most of the unsecured products you are in currently, for example personal loans we have seen banks also pricing their loans quite aggressively in different segments so how are we…?

Rajeev Jain: Because corporates credit is not growing there is clearly pressure on retail assets I think the overall value proposition of which pricing is one part of it we are very competitive you could take a loan as a salaried individual we could give you money at 14% IRR on an unsecured loan for five years. Clearly the package which is value to you in terms of price, fee products, customized fee products, no pre-payments, ease to pay is an overall proposition, so in our assessment price is only one dimension, a managing risk it is easy to do unsecured but very tough to manage as you have seen many people have tried and not managed to deliver it so you got to be highly prudent and your risk management has to be very strong for you to be able to that and we think we managed to do that successfully, we offer three unsecured lines, personal loans cross sell, salaried personal loans and business loans we had run these businesses for loans close to 8 years and we have invested deep in technology and analytics to manage risk and velocity so we are quite comfortable with it, data on how each one of these credit portfolio has performed is shared by us every quarter and it is very stable.

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

Hiren Dasani: I wanted to clarify on NPA recognition and provision policy, if I understand correctly you to provide at 90 DPD?

Rajeev Jain: Yes that is correct. So only publishing is 150 days Hiren but we have been providing at 90 for long that is why we have today no incremental hits as I mentioned many times on account of transition.

Hiren Dasani: If you were to move today to 90 what could be the gross NPA level?

Rajeev Jain: No hit at all, there is no impact.

Hiren Dasani: There is no impact but optically the 1.7% will probably look…

Rajeev Jain: Yes that is correct it is only an optical change.

Hiren Dasani: The provision coverage will look similar.

Rajeev Jain: That will not change yes that is correct. That will look very similar because it is only the 90 day number will change you will see 2 to 3 basis points movement in provision coverage.

Hiren Dasani: Provision coverage percentage will remain whatever it is currently some 70%?

Rajeev Jain: That is correct.

Moderator: Thank you. The next question is from the line of Sanket Chedda from SBI Cap Securities. Please go ahead.

Sanket Chedda: I just missed your part on the NIM expansion you gave the four reasons out of that one was what percentage of the book is fixed and floating can you just repeat that?

Rajeev Jain: 50% of the book is fixed and 50% is floating

Sanket Chedda: What was the other reason on fee income?

Rajeev Jain: Capital, volume velocity and the consumer business growth was faster than the balance sheet growth, consumer grew 42% versus SME and commercial which grew 26 and 29%.

Sanket Chedda: What would be the outlook on NIM any steady state number you are looking whether it will go north…

Rajeev Jain: Because of there is seasonal nature our Q1 and Q3 normally looks stronger and Q2 and Q4 will look softer so because of seasonality historically that is why we have never focused on NIM, but overall I think if the next 30 days are good we should be able to hold the NII growth and if

Q3 is strong then the full year should look between 30 and 35% net income growth backed by similar NII growth.

Sanket Chedda: Any outlook you want to provide on commercial business outlook?

Rajeev Jain: It grew 26% we are investing in deepening the talent venture in the commercial purpose, we have identified the lines of businesses that we want to be in. It's a long haul, we are not in a hurry and will build it out in a steady manner over the next 3 to 5 years, we foresee commercial businesses could be 15 to 17% of the book in a 3 to 5 year horizon.

Moderator: Thank you. The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: The operating leverage how it plays out over the next two or three years, as a consumer book close maybe your cost income or cost effect goes up but as digital and obviously initiatives you have it should come down, is there a cost income target, cost asset target that you have to work with over next two years, how should it play out?

Rajeev Jain: Cost to income target would be around 40%, but what happens Saurabh is that if you're doing well then we are investing in our future as well, so we are investing much more aggressively in technology, we are setting up a R&D Innovation Centre, we are setting up a learning academy, we are making a very large investment in a separate SBU to manage digital in the company in next six months, these are all they don't yield anything in now or even next year, I take them off today for the steady state businesses probably I would be at 40 even below 40 I would be at and as we transition businesses to be more and more to direct to customer, should see further operating leverage emerge. We are quite clear only about one thing which is that if there is growth there will be an expense growth if there is no growth will be no expense growth. That is really the thought process.

Saurabh Kumar: On this infra account how much have recovered now on the infra book now?

Rajeev Jain: We had to take the last residual 12-13 crores on this infra account.

Saurabh Kumar: After that the book will be 100% covered or?

Rajeev Jain: Yes we would largely be covered. We had at the peak of it 1800 crores of portfolio we are now down to 355, out of that this 50 crores account would be fully provisioned but I have to still get my 300, so once this 300 comes then we are covered.

Saurabh Kumar: And you anyway are not growing this book?

Rajeev Jain: No we're not growing, in fact as said from 1800 we have come down to 355 out of that that is only 4 accounts and at this point in time we are comfortable.

Saurabh Kumar: Maybe one or two quarters you can get accelerated provision but after that at least on this portfolio there should be no reason to get?

Rajeev Jain: Yes that is correct assessment.

Moderator: Thank you. Since they are no further questions in the queue, I would now like to hand the floor over to Mr. Karan Singh for closing comments.

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

Rajeev Jain: Thank you.

Moderator: Ladies and gentleman, on behalf of JM Financial Institutional Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.