



“Bajaj Finance Limited Q2 FY '22 Earnings Call”

October 26, 2021

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Good Day Ladies and Gentlemen and Welcome to the Bajaj Finance Limited Q2 FY '22 Earnings Call. This call will be recorded and the recording will be made public by the company pursuant to its regulatory obligations. Certain personal information such as your name and organization maybe asked during the call. If you do not wish for it to be disclosed, please immediately discontinue this call.

As a reminder, all 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. Thank you and over to you, Sir.

Anuj Singla: Thank you Aman. Good Evening everyone, this is Anuj Singla from Bank of America Securities. Thank you very much for joining us for the Bajaj Finance earnings call to discuss Quarter-2 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 giving us 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, thank you BOFA team for hosting us, a very Good Evening to all of you. I have with me here in the room Sandeep Jain who is our CFO; Anup Saha who is our Deputy CEO, Mr. Babu Rao who is our general counsel; Fakhari Sarjan who is our CRO; Ashish Panchal, President who runs the set of businesses and my Chief of Staff; and Kurush Irani who is our Head of Operations and runs our business transformation initiatives. I will be referring to the investor deck that we have uploaded in the investor section of our website. We uploaded that at 4.30 or so, I hope you had time to review that. Let me jump right in. I will take 20 minutes to just talk through the key pages in the investor deck and then be open to questions. Let us quickly run to panel 4. If I summarize how the quarter went, I would just say that it is a quarter of strong revival. We live in famine-feast times; last quarter was a famine given the second wave. It is a strong revival across growth, risk, debt management, and financial metrics in the quarter that went by. In absence of a third wave, I would just say that we are quite confident about the second half of the year on growth, risk, and financial metrics as a company. Business transformation which was expected to go live on October 31st is running behind schedule mainly to an extent because of code freeze for the festival season and due to second wave causing certain tech deliveries, so that will go live now and December 15th, but I will provide you some texture in some of the slides as to how under the hood business is beginning to dramatically change in the

way we conduct business. Go live is for the consumer app upgrade is now planned for mid-December which is December 15th.

Very quickly on to numbers, AUM given at 167,000 crore just a tad below 167,000 crore that is a year-on-year growth of 22%. OPEX I will talk about came in 38.1%. PAT came in at 1,481 crores, year-on-year growth of 53%. ROE at not annualized at 3.8% and net NPA came in at 1.1%. I will be covering all these five points in little bit of detail in the next two-three panel, so just hold on for a moment. Year-on-year, I have jumped on to panel five, first of all year-on-year numbers are not comparable due to dislocation that was caused by the pandemic. AUM I talked about moved from 137,000 crore to 166,000 crore. The core AUM growth which is a strong core metric grew by 11,150 crore, that is the highest ever we have done in a quarter, so to that extent the AUM momentum is quite good. When I cover the AUM composition, composition is pretty steady. What should not be going up which is our auto finance business is not going up, what should be going up is other lines of businesses, we are all going up, but I will cover that, so in absence of a third wave, we do believe the quarterly AUM growth for balance of the year should be quite strong. We booked 6.60 million loans in the quarter. It is still not at an ever high level, I think ever high level was at 6.88 million in Q3 2019, so two years ago third quarter was the highest ever at 6.88 million if I am not mistaken, so we still have some distance to go there, should happen in the following quarters.

Customer franchise just a tad below 53 million. The cross sell franchise is now 29.4 million, growth of 23% YOY. The customer franchise also grew by 20%, the cross sell franchise grew 23%. We acquired 2.35 million new customers in the quarter. In general, last quarter or this quarter, we are on track to add seven to eight million customers a year from a new customer addition standpoint. Geographic footprint stood at 3,330 odd locations, 120,000 distribution points. We added 216 new locations, I will provide some texture as to where we are growing also in this two slides later. Overall margin profile across businesses is holding. We used to have earlier challenges in the mortgage side of the business as the pricing has come of there, we are able to protect our margin profile there as well, so overall across businesses we are managing to protect margin profile. It still may not be fully visible in the P&L due to interest income reversal, came in at a 322 crores versus 216 crores in Q1 last year. The run rate of that number we expected to normalize to 180 to 200 crores from third quarter onwards, so in absence of a third wave probably the worst is behind us even on this metric as we get to Q3. Cost of funds reduced to 6.77, that is not really the run rate number, the run rate number you should read it at 7% because of wave of IPOs that happened and we borrowed short term, this metric is little not fully representing the real number. The real number should read at 7%.

The company also raised reasonable amount of long-term monies in the quarter that went by. In two years and above, we raised 6,800 odd crores. In that of course ten-year monies, we raised at 2,300 odd crores, came in at historic low rates, so it is good quarter from a treasury standpoint. As a result of however, such a large raise and bunched in end of Q2, the overall liquidity position was quite strong. We are hopeful that it should get normalized to 8,000 to 9,000 crores by Q4, maybe by Q3, but definitely by Q4, depends clearly on how attractive the treasury markets look.

If you were to cover long term, we will cover long is really our approach as Management. Deposits book to granularize liability side, continue to grow; grew by 33% YOY. In that, retail is 77, wholesale is 23; our goal is 70:30, we are doing better than that, so we are quite okay. OPEX to NIM was much higher than the normal. We exited the year at pre-COVID levels at 33%. It is a transient frame is what I would say. We foresee OPEX to NIM for the quarter, came in at 38% which is high as I said of eight-nine quarters mainly owing to debt management costs because as clients move into Stage 2 and Stage 3, the collection costs go up, but they are stable in bucket one and if they are stable so reduces or does not deteriorate the credit profile, but the cost of collection goes up, that was one reason. Second was the salary cost that went up. We added close to 2000 employees to support our growth stand overall. As a company, that is ever high addition that we have actually done in a quarter. We expect this number to go down to 33%-34% mainly as the debt management cost normalized by Q3, that is one part, and as the overall balance sheet grows, that is the second part. I think we should exit the year between 33% and 34%. By that time 3 in 1 will also go live, so next year should look closer to at 30%-31% is what really our thought process would be at this point of time.

Loan loss and provisions came in at 1300 crores. To protect ourselves against a potential third wave, we still continue to increase management overlay. We increased management overlay by 350 odd crores actually from 483 crores to 832 crores, that is virtually 350 odd crores addition that we did. Mainly, it is not evident as I cover some points in the numbers but we just want to protect ourselves against wave three and so it has been done from a conservative prudent standpoint. Overall, debt management efficiencies across products was better. In absence of third wave, we do now expect that loan losses will normalize to be adjusted for balance sheet between 700-800 crore run rate for second half of the year and hopefully in absence of a third wave that is really where the number should look. GNPA, NNPA improved sequentially of course from 2.96 to 2.45, 1.46 to 1.1. There was material improvement in GNPA and NNPA. If there is no third wave, we expect GNPA as had guided earlier to settle back at 1.7% to 1.8% at a GNPA level and 0.7% to 0.8% at NNPA level.

We also had forecasted in Q1 that we overall estimate the loan loss for the full year to be 4,300 crores. We have already taken 3,050 odd crores, we are residually left with 1,250 odd crores, so if I take the previous sentence, clearly run rate will probably be little elevated of 700 to 800 crore depending on how the debt management efficiencies pan out in Q3, but that is a residual number for next two quarters. If you look at the absolute leaving the percentage aside, there was significant improvement sequentially GNPA from 4,700 came down to 4,100. NNPA came down from 2,300 crores to 1,825 odd crores. In that the secured component, 57% of our NNPA is essentially contributed by auto finance. Significant marked improvement even there in terms of debt management and efficiencies and mortgages, so between both of them 78% is actually secured assets. Overall, Stage-2 also dropped by virtually 1,500 crores on 7,400 crores to 5,950 odd crores. If you go to panel 7 quickly some more number that you can see Stage-2 assets dropped from 6,100 crores to 4,500 crores, which is other Stage-2 asset. We have a 23 odd percent provision against it, so numbers are as you can see across, sequentially there is marked reduction in all the numbers, so that is a good sign. We just want to make sure that having

suffered from a second wave, we protect ourselves for the next at least one more quarter before we take a regularized view of loan losses and these number.

Overall, as a Management our view is that adjusted for balance sheet the Stage 2, Stage 3 assets should look like 7,800 to 8,000 crore that is really when we can say that we are back to pre-COVID levels. At a design level, at this point of time, that number is 10,450 odd crores, so we still have some distance of 2,500 crores. If the current levels of debt management efficiencies and default rates that we are seeing incrementally across portfolios remain, we will naturally get there at a framework level. For the worse should probably be behind us on credit cost as we move on from here, so despite taking a 315 crore extra conservative provision on account of management overlay, the overall profit before tax came in at 2,004 crore, profit after tax came in at 1,481 crore, which is a growth of, year-on-year is not comparable but came in at 53% higher. Capital adequacy is pretty strong, 27.5%. BHFL AUM, BHFL continued to do quite well. AUM grew by 33% to 44,000 crore. BHFL also launched a new vertical which is affordable housing finance business. It will move slowly, but that is a start that we have made to complete the product suite for BHFL as a company. BHFL capital adequacy also remained strong at 20%. They delivered a 100% growth year-on-year on profit after tax came in at 166 odd crores. BFSL continued to retailize or granulize securities business, acquired 109,000 odd customers. We could have been stronger, but we made some changes to the way our distribution model is organized else we were rating a run rate of 50,000, we have pulled back some of it to create a more sticky origination model rather than just a number. BFSL delivered small profit of 3 crores, so that is really on the financials.

Overall, I would say good quarter in financials. Marked improvement from where things were in Q1 as I said famine to feast the times that we live in. Let me just give you some texture on in July AGM we talked about that how we see business to B. We have talked about it to investors that we see ourselves to be an omnipresent company, which essentially allows customers to move existing in new customers to engage, transact, and service online and offline and vice versa without friction, that is really the frame that we are chasing and pursuing as a company and we think creates a strong mode for us to grow in a sustainable manner for long period of time. What I thought will give you texture from here on that is really how we will provide updates to the street on a quarterly basis. On panel nine, so we are a regulated business. We think as long as KYC is relevant, as long as AML is relevant, as long as debt management is real, geography will play as important a role and boots on the ground will be as important a role than anything else, so the omni presence frame fundamentally at the essence level also starts from geography. At a geographic level, we were at 3,330 locations. As I said 120,000 odd distribution points expanded to 116 locations. The footprint when you look at pan India essentially growing in North and East at this point in time as the GDP contribution in North and East versus our portfolio contribution is lower. When we stack the state GDP versus when we stack the portfolio mix, we clearly find that North and East its contribution to national GDP versus its contribution to our portfolio is lower, so we are growing in North and East lot more. Of course it is a risk metric to that extent it helps reducing a concentration risk and of course creates new growth opportunities, because these are lot more uncharted and virgin markets.

In terms of omni channel, now let me give you texture on offline to online, online to offline. Let us start from the top of the funnel as to how are we originating customers and how do we incrementally originate customers. We originated customers mainly at the point of sale, however, in the last two years that started changing dramatically. In the quarter that went by, the company acquired 372,000 new customers fully digitally all the way to e-mandate, e-KYC, and so on and so forth, quite a tad below 400,000 new customers. These 400,000 customers in general walk-in to the store, have a 60-day activation of 22% to 23%, have a 90-day active of 28%-29%, so they add to the point of sale business rather than we drawing from the point of sale. These are all paid cards to the point Anup is making to me, 50% of them pay fees as a payment gateway and buy the product, so clearly there is a huge latent need for the product and 50% pay when they walk in to the point of sale.

The EMI store strategy after a year of reasonable amount of effort is now beginning to yield reasonably good momentum, the EMI store visits increased from 10 million in Q4 to 30 million in Q2. We have started to stimulate or activate, use this as an asset to stimulate the entire customer franchise with whom we want to do business resulted in close to 250,000 new loans in Q2. The total SKUs that client customers are able to see or prospects are able to see is close to 30,000 SKUs, total 25,000 merchant from now become part of have uploaded their inventory infrastructure. This offering eventually, I forgot to cover the EMI card as the consumer app upgrade goes live, this will make the journey lot more seamless. Similar to EMI store, this offering is already integrated with the current Experia app, so allows customer to do a similar sign on to actually get in. The point of sale transformation fundamentally you know has also started to deliver reasonably good momentum for our personal loan and credit card distribution business. We have been at it for the last one year, it is an integrated offline to online framework, which covers communication, call center and fulfillment right at the point of sale. We generated close to 400 crores of personal loan in the quarter right at the point of sale that went by and 27,000 credit cards distribution in the quarter that went by. The run rate of credit card distribution is actually higher because of the Mastercard issue we were down for 30-35 odd days, otherwise, the run rate is close to 40,000-45,000 accounts. So the consumer, just to take a moment on it, existing customer walks in, we have fundamentally pre-stamped him for a set of product options based on analytics infrastructure. We communicate with him to be able to take a loan, improves our BNC rates because he is an existing customer on one hand, reduces promotional effort, and delivers with lot more integrated outcome.

Point number 4, CDP platform key to us delivering a consumer app upgrade has gone live, so the under-the-hood effort, it delivers a significant upgrade to our multichannel orchestration, customer communication, call governance infrastructure, an integrated multi-dialer framework and a multilingual architecture. These are under-the-hood changes that we are making to the business model to ensure that when the consumer app upgrade goes live, it yields from a desirable standpoint for the consumers and outcome that they like, so just to provide some texture, I can go on but I picked the top four points to provide some update. On consumer app upgrade, we have 13 million active customers on it. As I said, delayed by 45 days because of code freeze for festival season. Normally, we should have guided little better probably we said

October 31st, we should have probably said November 15th so we were still November 15th, during season we do not make any changes. We knew Diwali is November 4th that should have been little more careful and certain tech deliveries are running behind. Overall, we are releasing in sprints given it is a large infrastructure. Sprint one which essentially covers all customer service manuals, payment options, EMI store, 20 engagement apps, and over searching functionality of the entire app has actually gone live on Playstore for 10% of the customers. It went live for 1% and 5%, and now it is 10%. We have held it there now. We will now wait for the season to get over till November 15th and increase coverage from November 15th.

The sprint two covers business journeys end to end, insurance and mutual fund market place and all of it will deploy between November 15th to December 15th. As I have articulated earlier that is phase 1. My satisfaction on the consumer experience, I would say would really be by April 30th when phase 2 on what we see as phase 2 because as you build this out, we have identified a whole host of things that we want to do as well to improve customer experience and journey will happen, but will never get done in one go, so it ought to happen in phases only. Just on payments, we have onboarded 3.1 million wallet customers. For festive season, one of the objectives of wallet was to create more integrated, more seamless journeys. We have integrated the wallet feature for seamless fulfillment. We do a whole host of promotion, cash back and so on and so forth and that was the objective of having wallet or payment tool. All our cash back, reimbursement processes are all integrated for the season into through the wallet. On one hand, it will improve the cash back and reimbursement process. On the other hand, it will improve stickiness and engagement.

Merchant app that is really our second large app ecosystem that will go live by February, that is also probably behind by 30 days. It will enable both P2P and P2M across onboarding transaction, promotion, rewards and settlement. We will weave into it our earlier REMI business, and then hopefully, be ready to grow that business from thereon. Post board approval, we have applied for PA & PG licenses and so on and so forth, so that work is on. We are expanding the payment stream given the long-term strategic nature of the view that we have taken on the business. Just last two points of update. As I said, it is an omni channel frame. The entire architecture is organized as, everybody is on this ecosystem which includes our EMI store connect merchants. The productivity app connects employees and distribution partners, so the new debt management services app went live across 34,000 merchants and 9,000 employees enabling the entire end-to-end journeys of onboarding agency staff. We always onboarded agencies, now it onboard even agency staff, the entire cash receipting, trading, communication, compliance features, dialer integration, and call recording. The entire new next generation infrastructure went live fully. Also enables the debt management staff to service the customer on a host of service related queries can instantly trigger a whole host of menu options to help the customer with requirements.

One of the thing, just the sheer fact what we keep telling people that as much as this business is about risk management, it is also about debt management. The company issued 13.5 million receipts in Q2 alone, that is the breadth and the depth of the effort that debt management

involves. Sales one because if the consumer is going to press a button and based on the CDP platform, the lead should go to a call center or to the sales person is as integral to the omni channel strategy has started to now also go live, so we are targeting that by December 15th this happens, by January early this should have also closed. This also enables staff to help customers with a whole host of service-related queries, transition customer from online to offline and this is online to offline because when a client presses a button and wants a particular product, based on CDP platform, it needs to drop directly to him based on a design, so as the consumer facing app ecosystem is are these as well. We are hoping all of these fully goes live between December 15th and January so that the phase 1 gets over, and hopefully, by then COVID is also over by January and we can have focus on business.

That is really on the business, very quickly I am jumping all the way to panel 43 to give you texture on business composition. As you can see, as I said what needs to go down is going down which is AF is auto finance, down year-on-year 15%, rightfully so because the business has really struggled and it is down 15%. Its contribution is also down to 6% and rest of the businesses have picked the weight of it and have grown, but overall you do not see much movement. It is in corridor of 1% or 2%. Provisioning coverage that is panel 46 gives you the data that I talked about, GNPA at 4,000 at 2.96 in June is down to 2.45 and NNPA of 1.46 is at 1.1, still auto finance is really where the pain is sequentially down. As you can see, gross NPA is down 3.1% and net NPA is down 3%. We are forecasting this will be down to 7%-8% exiting Q4 and may be a little better as we move on. Otherwise, you see improvement sequentially markedly actually our sales finance business is actually down over March. Consumer B2C is just about 40 basis points ahead, rural finance is same, rural B2C is up, but we can see star there. The gold loan has created some noise, used to club it there, so adjusted for that the numbers are lower, but 1.65 also had some amount of gold loan to that extent. It is apple for apple conversation. SME is still some way to go. The peak should be over by November and we should see numbers go down by December. Mortgages, reasonably flat. Marginal uptick between 90 basis points to 97 basis points. Similar to NNPA as well, provisioning coverage remains same, so we are quite soft.

This is the last panel probably I cover and open it up for questions. Panel 49 you see lots of numbers here. As I said marked improvement across all versus OTR, 1,287 has gone to 1,512 because we have upward OTR in the mortgage business mainly to the tune of 220 odd crores, mainly mortgage, I would say probably only mortgage, that is where the request came from. Normal Stage-2 as you can see down 1,600 odd crores, Stage-3 down 600 odd crores. Provisioning well covered. We have increased the provisioning coverage from 51 to 55, well prepared for wave three if it is to happen. If it did not happen, we will take in new provisions by end of Q4. Last panel, overall Management's assessment on portfolio quality, we are good. We are still watching two wheeler and three wheeler. As you can see, rest of the numbers are down, two wheeler and three wheeler on this panel. Two wheeler and three wheeler logically ought to be at 85%-86% stage 1. It is still some distance away from it. I think in the coming weeks or months, we should see some movement here. Otherwise, sales finance, digital products, B2C also some distance, better than where it was in March, but still has to get to 98 odd percent of

current which is really where we were for eight-10 years, we should get there by Q3 is what our assessment is.

Next panel, professional loans, we are virtually there; B2B, we are virtually there; B2C, we have some distance to cover. I think a little more distance to cover, probably we will be there only by Q4 in absence of the third wave. Loan against property some distance to cover, may take a little longer than even Q4. Home loan we are mostly there, should be there by Q1 next year. That is really the quarter in summary. Happy to take questions if any. We have tried to cover everything I thought, but happy to answer any questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Aditya Jain from Citigroup. Please go ahead.

Aditya Jain: Thank you, lot of good details there. On the merchant app, if you could give us a little bit of color, what will that achieve, if we were to think of the outcomes as improvement in productivity, higher customer acquisition rate or may be directly generating revenue, would you put merchant app and what its objectives are going to be and especially given the payment gateway license that you have applied for and received, where does the merchant app fit in?

Anup Saha: As Rajeev explained, merchant app essentially, our starting point is we have this REMI business, which we are transforming to the payment business. So in our phase 1, merchant app is essentially the categories under REMI which we do will come under that. What it does to us the merchant app is the complete onboarding to the payments to settlements to lifecycle management of the merchant, so the starting point is fully digital onboarding and as we bring this in since we spoke about a four stack payment in our payments journey, the merchant app will enable and along with the merchant app what is coming in is the consumer is the four stack payment, which is PPI, UPI, EMI card, and credit card supported by reward under the underlying mode, so that is what we had explained last time, so this is essentially the app which merchant will use the ecosystem of ours. Currently, we have 119,000 merchant of that REMI is about more than half of it, but what we are also expanding when we said P2P and P2M, because we are bringing the QR as the payment mode which is the Bajaj pay, merchant app will enable the merchant to onboard instantly and digitally, and as we bring the journey on QR, this will play out in terms of productivity and coverage.

Rajeev Jain: I will just add to what Anup said, so that is the P2M part is when we go live with P2M, sometime by May or so we go live with P2P because at a fundamental level, we have significantly high number of boots on the ground. We are sitting in retail spaces. We intend to use those boots on the ground to significantly expand retail P2P payment ecosystem, so we start with going after our merchant ecosystem which has let us say \$ 80 to \$ 100 billion of annual commerce, that is one part and then phase 2 go to P2P as well, so goal would be full-fledged payments and that is really what merchant app in two phases would cover. The third phase parallel just to complete the point, Aditya, is the full fledged acquiring business because this is going live with QR. QR will be followed by the POS and the payment gateway business, so that is really how this will play out and that is the strategic call we have taken that we will play all three.

- Aditya Jain:** On the POS transformation, just to understand that journey so the personal loan and credit card business is being cross sold when a customer is at the store, is that the right understanding?
- Rajeev Jain:** Yes, it is being stimulated at the point of sale, so you walk in to the store. We have 30 million customers that you want to do business with. You are one of the customers who is fundamentally existing customer, who is pre-approved gets stimulated based on our stimulation model and best models for a peer or a credit card that we have p stamped, says yes. Using the CDP platform, we route the call in 30 minutes, we give him 30 minutes in the store and reach out to him. In a way, it is a huge optimization. It is a huge expansion of the pool because earlier, 45% of our customer franchise is GMC. This is embedded into the journey of the customer addresses reach out problem and customer chooses whether he wants the product or not, but we do think this will significantly expand as we move.
- Anup Saha:** As the three in one comes in because he is at the point of store, the moment the trigger comes in even in the three-in-the-one app, he can consume the journey and go all the way till the final stage, so as of now it is through the CDP and the real time call back.
- Rajeev Jain:** That is an important point Anup is making and I have made that point earlier that the journey will become lot more seamless as the upgrade comes, should lead to significantly higher velocity in the process.
- Moderator:** Thank you. The next question is from the line of Abhishek Murarka from HSBC Securities. Please go ahead.
- Abhishek Murarka:** Good evening everyone, thanks for the extremely detailed presentation, couple of questions. One on OPEX as you mentioned that your collection costs have been higher this quarter, roughly how much of the OPEX you have been given by this jump in collection cost, and two, just an expansion to that, looking at the file at Stage-2, 3 is slightly higher than normal and some of your buckets are also moving away from the normalized balance, do you think collection cost will remain high for the next two quarters, and therefore, that presents a risk to your 34% are there?
- Anup Saha:** Abhishek to your point on collection cost or debt management cost that we talk about, the number has increased from 280 crores in the previous quarter to 520 crore in the current quarter and it does have linkages to bounces going up as we call out in Q1, the bounces were up 10% versus where they were in the Quarter-4, point number one. Point number two is as you have called out very correctly, the Stage-2 and Stage-3 are at elevated levels versus where they were earlier in pre-COVID period, so that is the second reason because until such time that we see these Stage-2, Stage-3 go back to 8,000 kind of number, which Rajeev called out and we are estimating that by end of Quarter-4, we should be there, the debt management cost may remain elevated. However, I have reason to believe that the cost has peaked out. You will see it is sliding down in Quarter-3 and by Quarter-4 end, you should see it normalizing.
- Abhishek Murarka:** Okay, so 520 should be the peak and from there it should...?

- Rajeev Jain:** It is definitely the peak, we will see the number go down only from here. To simplify the conversation, the total number between Stage-2 to Stage-3 is down 2500 crore. You look at it another way, so the exit run rate is lower by 25%, so that is one part of the conversation. The buckets will also ease, so that is just intuitively I am making the point.
- Anup Saha:** The other piece I think that we have been talking about ever since the pandemic started and I think the company started making higher provisioning and write-offs etc., all of us are estimating hefty write-off recoveries in times to come. The number has moved in fact if you look at in the Quarter-1 the number was 105 crores of bad debt recovery. In the current quarter, the number was 213 crores of bad debt recovery. Even this recovery creates cost for the company, so while it is giving P&L benefit that the amount is written off in the last year are getting collected and going in the income line, there is a corresponding cost that is also sitting out there.
- Abhishek Murarka:** Thanks, secondly I was just looking at the standalone fees, I think 700 crores was also in the quarter, if you could give some granularity there or some breakup between our distribution, fees, commission, etc. that were there?
- Rajeev Jain:** Abhishek we have discussed this in past as well. I think the fees are across various kind of businesses that we do. It includes the value added services that we offer to the customer. It does include the EMI card that we offer the customers as a proposition. It does have the distribution fee revenue pool that gets disclosed separately in the annual report as well, and it also has the bounce charges that is elevated because of the higher bounces that we have seen in past as well as in the recent quarters as well.
- Moderator:** Thank you. The next question is from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.
- Dhaval Gada:** Thanks for the opportunity, I had two questions one was related to the new digital EMI card customer addition that we did during the Quarter-3 like 72,000, just wanted to get some perspective from which platform this was driven and overall underlying question is to understand what will be required to accelerate the current customer acquisition journey from the 7-8 million per annum guidance that we have, so that is the first question? The second question is on EMI store, so I think about 4% of loan booking in 2Q happened via EMI store, so on a normalized basis sometime next year, what should be the normal loan origination from the EMI store and how does that sort of impact profitability, if you could give some color around that? Last question just a clarification, on the REMI business in a earlier comment, just wanted to understand does the asset quality problem that we had in the COVID period does that get addressed in the new architecture if you could just clarify that part?
- Rajeev Jain:** Look digital EMI card, we have been added; five years ago, we launched during Diwali three clicks and a happy Diwali that is the only time we did half page Times of India ad realizing very little that it is some way off. We have been added on wanting to originate clients other than at point of stay. I think rapidly digitizing ecosystem at a country level and we did not let it go. We stayed at it on one hand and the country continued to digitize on the other. Infrastructures like

e-KYC, e-mandate, IMPS, pan integration have made it possible for you to sit at home and subscribe to or take a pre-approved life, so that is one part. Having gained confidence, we now originate it like a marketing function uses it as a product under search engine marketing on this and through search engine optimization, we originate cards, and there is a product management team which runs this, so that is one. Its run rate will accelerate. The 372,000 new cards probably could look like half a million in the current quarter, it is very much possible. There is clearly a latent need for it as I said 60 day active, it adds to the point of sale franchise in terms of customer walking in and 90 day active is 30%. REMI, what will take to accelerate in a way that we just need to be at it, we just went live with Flipkart. This is a pod infrastructure that we integrated with Flipkart as well. We are now, this is the first month. We just went live, we will probably do 10,000-12,000 digital EMI cards on the Flipkart platform as well, so we will see these probably grow and it is completely digital. Second, REMI business and wallet loans, are two businesses that we shut and REMI business we significantly restructured because one was a credit issue and another was margin issue. The business lost two-three years of earnings was the point that I made in both these so that seemed like we had to restructure the business. The business side of it has got restructured, the average ticket size used to be 9,500, now it is at 15,000. The categories have changed, we move to categories like tyres, low-speed bikes, coaching classes, dentistry services, and so on and so forth, which gives us a much better business P&L. Lower the ticket size as we realized larger was the problem, so it should grow. As the merchant app goes live, this business should probably accelerate sometime in the next year, but we will work only with an average ticket size of 14,000 to 15,000, we are not going to dilute on that.

EMI store, look it is a strategic call we have taken, consumer is going online, we cannot remain offline, let us just go to 30,000 feet. We are investing in building that asset. Its contribution as we said was 250,000 accounts, so we will keep growing this probably it is possible next time same year, it is originating half a million accounts. It will originate half a million accounts as the asset gets warmed up, we still have a whole host of deliveries that are going live every month. We are still some distance away even in our assessment from making the asset as good as it can be, so continued significant tech investments we are making and making the asset better, so it will grow. Customer chooses, whether he wants to walk at the point of sale or he chooses to, we are stimulating him increasingly on EMI store. Our earlier engagement in the customer used to be dumb SMS or let us say a bot, now it goes to EMI store. It just logically lifts the engagement rate of the client from being able to purchase, so it will continue to move up and it will become a reasonably strong asset for us to pursue as we grow with the business and it will help the merchant ecosystem as well, because we help bring him an asset against the large e-commerce.

Moderator:

Thank you. The next question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer:

Congrats on the quarter, I just had a couple of questions Sir, firstly on Slide 15 and I have been tracking the company for a while, our ROA targets earlier used to be 3%-3.5% historically. This time we are mentioning about 4%-4.5%, just wanted to know what really has changed that gives us more confidence for 100 BPS higher ROA? My other question is regarding the e-KYC license

now that NBFCs can apply, what is the real benefit apart from turnaround time, and in BNPL, are we looking to move into other categories like Ftech or travel like some of the fintech BNPL players have done?

Rajeev Jain: This 16 panel moved up mainly as a result of tax rate cut. We exited Q3 or if you take the whole of three quarters of FY '19, mainly moved up as a result of tax rate.

Sandeep Jain: We should have done it earlier I think it was a miss, we corrected it in the current quarter. As the tax rate got revised from 33%-34% to 26%, we should have corrected it, it was a miss from us.

Rajeev Jain: Nothing it is just a mathematical point. On e-KYC, we have applied to Reserve Bank of India, I think it is a welcome development and it will be really beneficial, helps the customer. I think that is the first point at the point of sale through biometric, helps us that we do not have to redact images and so on and so forth, so improves compliance. I think it will help financial inclusion I would say. Clearly in smaller, we are in 3,300 cities helps inclusion in a huge way, I would say so I think these are three benefits that will really emerge. We are waiting for hoping that we can get approval and we can meet all these three objectives. BNPL, I do not want to use the word BNPL, since you used it that is what I tell investors that we were doing it for a long, long time, we used to call it REMI, I did not want to be dramatic and make that point. Categories, whatever our consumer is looking at that is really how we are focused on. He was looking for tyres, we got two tyre ecosystem from Bridgestone to Michelin to we are working with all to Ceat. He was looking for coaching classes, we got him that. He was looking for dentistry, we got that. He was looking for smaller appliances, we got that. In the smaller cities he was looking for low-speed bikes, we are now doing 3,000 to 4,000 low-speed bike every month, so it is consumer focused. We build out the distribution to help him get this at no cost. The only thing that you should know that tenures are shorter, it is only normally four to six months, so we will keep growing categories, but I just reiterate ticket size has to be 14,000 to 15,000 that is really what the economics makes sense.

Moderator: Thank you. The next question is from the line of Umang Shah from Kotak Mutual Fund. Please go ahead.

Umang Shah: Thanks for the opportunity and congratulations to the team for a good quarter, two questions from my end, one is there any change in terms of product pricing strategy, because if I look at our interest yields on a sequential basis despite AUM mix remaining largely unchanged and despite a 300 odd crores of interest income reversal, there is a fairly good jump in interest income, so is there anything that I am missing here?

Rajeev Jain: There is no significant change in the pricing, I think what is being missed out is that the interest income also includes the revenue that gets generated because of surplus cash that we are managing, so that is an important metric to look at. It is not sitting in the loan book, it is sitting in investment book. I think once you club together, you will see the numbers matching.

- Rajeev Jain:** If at all there is anything else, there is pressure on that so the holding margin profile we have said, Umang, but there is pressure clearly across lines of businesses.
- Rajeev Jain:** In fact, the gross fees on the mortgage side has gone down by almost 80 basis point or 90 basis point in the last one year.
- Rajeev Jain:** Across lines of businesses, there is clear pressure because there is clear change for growth in retail assets. We are clear in most of the lines of businesses. If we take a lifetime view on profitability of the business, we would rather let go some business than to chase assets so we will continue to sharpen our pencil rather than dilute margins.
- Sandeep Jain:** In the last quarter I think as Rajeev was explaining the cost of fall of 6.77 is not a right reflection of the effective cost of fund that we have, which should be read as 7%. The corresponding revenue of that is sitting in interest income without the corresponding balance sheet at the quarter end, so we have 3,000 in the last quarter end, but we have nothing in the current quarter end, but during the quarter we have done a lot of financing on the agro side as well.
- Umang Shah:** My second question is again on OPEX, so I appreciate the color given on the current quarter OPEX, but just wanted to understand that probably over next two-three quarters by the time we launch or completely go live on our business transformation, will there be any lumpy spends maybe on advertising, marketing, or any new plan hiring that you have which can push up the cost at least in the near term, before we normalize to anywhere between 30%-32% cost to income run rate?
- Rajeev Jain:** The answer is no, we will continue to probably still add staffing. It may not be 2,000 run rate, it may be we just hired a large batch of engineers from various large institutions, hired 300 odd engineers at this point in time to join between Jan and June, but no lumpiness. We have already taken into account large infrastructure spends that we are actually doing, which will get delivered and it is big. You have to just wait for normalization, Umang, of the NII to play, nothing else.
- Moderator:** Thank you. The next question is from the line of Vikram Subramanian from Spark Capital. Please go ahead.
- Vikram Subramanian:** Sir, thanks for taking my question. I had a couple of questions, first on the EMI card, so you had mentioned about a 60-day activation rate and a 90-day activation rate I think 22% to 23% and so on, could you please explain what the definition of activation rate is and what exactly it means for you as a business?
- Rajeev Jain:** Activation is defined as, sort of 372,000 on a 60 day active basis, 22% would come and take a loan. Let us say in a 60 day active period would happen and 90 day active would be 100,000.
- Vikram Subramanian:** How do you see that going forward. Is this is a number that we are targeting, is this too low?

- Rajeev Jain:** Two-three things, normally the B2B business happens in a seasonal manner. There are two big seasons in Q3 and in Q2. We are yet to see because this started to build momentum only from this January onwards and we have picked pace in the last four-five months as the product went live, so we are waiting to see how the festival season plays out. Whether the activation rates further jump up, so but on the other hand, I would just say because it is a paid product, customers brought it. The activation rate intuitively and by empirical evidence ought to be higher even than this, so I think, I will not put a number at it. We will continue to share this number. We of course the product management group tracks it, but we share this number as we see how it moves.
- Vikram Subramanian:** Just to clarify, is this activation rate uniform across POS originated cards and online originated cards?
- Rajeev Jain:** No, in the POS, we do not originate cards at POS. He takes a loan and then we offer him a card, it works reverse. Here in fact that is really the big change right, at a design level, we are first creating a card and then or a loan account and then a loan. There we create a loan account and then we give a card, so that is the big change at a design level; 90% of the customers they will take a card because they see the benefit of next time around he does not have to do anything. He is fully KYCed, so friction reduces dramatically, it is 90% there. These are two different I would say pillars of originating customers is the way you should look at it.
- Moderator:** Thank you. The next question is from the line of Shubhranshu Mishra from Systematix. Please go ahead.
- Shubhranshu Mishra:** Thanks for this opportunity, first of all I just wanted to thank you, I am a flexi loan customer and it is one of the most convenient personal loans being offered by any financial services in this country, that is the first I wanted to mention. There are couple of questions, first we just have a legacy of about which is just one OEM, I do not understand the reason why it should be limited to one OEM, why is it not being diversified for application because that is what we have been doing for the last decade?
- Rajeev Jain:** You mean two wheeler, Shubhranshu?
- Shubhranshu Mishra:** Two and three-wheeler, but yes only limited to Bajaj Auto, that is just the first question? The second question is on customer relationship values, how do you define customer relationship value, what is the **stand** and what are the projections in terms of customer lifecycle value as such? The third question was on how will current live customer are there and how many of them have more than one outstanding loan ex of auto loans?
- Rajeev Jain:** Two wheeler, three wheeler business has gone through a reasonable stress period and we have seen that concentration does have a role to play in this, so we are thinking that whether there ought to be more open in terms of us evaluating other two wheeler OEs, so that is one part of the conversation, so we will share some update by January-February on what our stand is on whether we want to diversify. We will never do three wheeler, we are quite clear. We do that mainly with Bajaj Auto and we will continue to do that only with them. On two wheeler, we do

have a thought process that whether there is an opportunity to be more diversified to reduce in events like this pressure, so that is one part. Second customer relationship value, we used to publish until two years ago the whole product per customer for many years we published at a design level that how many products customer takes. Our PPM models, we do not have fortunately any product which should produce a loss, so to that extent any product per customer eventually adds to a customer relationship value. We do not have any loss leader and we may have higher margin or lower margin businesses, but we do not have any loss leader, so more product customer eventually takes, more is the relationship value grows to be at a fundamental level. Until two years ago, we used to publish that in the retail business, in the SME business and these are that is really what our business is, what our products per customer is. After publishing for many years, we came to conclusion, you guys were not interested, so we dropped it off. We first moved it to annexure and then we moved it out. Anup is looking at me, he has been with us for four years, he is wondering, we used to Anup publish it, so I think but doing more with existing customer because on a more serious note leads to lower loss, lower risk, and more stickiness is the heart of the company, so we will just keep doing more and more with those customers. The 68% of the loan book in the current quarter or 6.3 million came from existing customers, so customer satisfaction if anybody used to say I mean how many companies can talk about 68% of customers of the loans in a quarter coming from existing customers.

Shubhranshu Mishra:

What is the dollar value and what are we chasing here in terms of dollars?

Rajeev Jain:

Dollar value fundamentally 90% of the customers who had essentially be actually it will exactly be 90% would be point of sale, 10% would be personal loans and mortgage loans and so on and so forth. On banking to the question that how many are active, today we have known two wheeler, three wheeler. The active banking is 17.5 million, so total banking is 19 million. Active banking at this point of time is 17.5 million known two wheeler, three wheeler, total banking is 19 million, so that is really what the known two wheeler banking is, you could call that active right because we are banking on a monthly basis.

Moderator:

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

Kuntal Shah:

Good Evening, I have two questions, can you give some flavor on the customer engagement on our new apps including merchant apps in terms of retention, engagement, drop offs, churn all the metrics which you must be tracking to see the usage and the KPIs you track? Secondly, once our capital adequacy ratio hits around 18%, what would be the steady state OPEX we can achieve at that scale because today we are over capitalized and our AUM is not getting reflected given the size of our manpower, but at scale what do you think would be the OPEX number, would we fall within 30% range at that level of capital adequacy?

Rajeev Jain:

That has not changed Kuntal, our stand is clearly the consumer app ecosystem should lead to significantly better customer engagement, customer take up rates, that is really the purpose, because we do not have a franchise problem. We have an engagement problem, so the long term just because we have had a quarterly blip of number going from 27 to 38 and then into 33-34,

we are in transient times, I do not look at the number. If it was 27, I will not look at it. We talked about it, we did cuts, if it is a 38, I will not look at it. The normalized number would be 33-34, which is really it was pre-COVID. We made significant changes to our processes to lead to significant cost optimization across. The medium term outlook or next year outlook does not change. We do think we will get to 30%-31% into as the normalized balance sheet growth happens, so that number is not changing. We are in transient times, will remain there for two more quarters and go back to normalcy. On app metrics, we do follow it, so two quarters from now, we start to share a panel on what the metrics look like, so we could have published it even now, we have chosen not to. As I said in the, we opened sprint one to only 10% of the customers. There is a HEART framework, that HEART framework covers HEART is an acronym, so at a design level it is happiness engagement, app upgrade activation, retention, and transactions that is the HEART metric, that is the HEART framework. We will start to publish this in the next two quarters.

Kuntal Shah: How is this HEART metric different from NPA score?

Kurush Irani: Kuntal, NPS is a very specific one metric which is the customers promotion right where he is going to reflect into a customer, HEART is a much more holistic approach wherein HEART you look, when we talk of HEART from a happiness perspective and this is something that we have leveraged and benchmarked from what Google uses so happiness would look at reviews, your ratings, what is the mix of the rating score that is just on the happiness side. Engagement looks at your track rate, your MAU, DAU, your app launches for user and so on and then as we get into activation and all that is more to do with how many are retaining on your app. Retention, the name is explanatory and then transactions is you define a set of transactions or properties on the app that you want customers to use and what is the usage on those specific properties within the app, so as Rajeev called out, we will start sharing how that process.

Rajeev Jain: Give us two quarters probably as we launch, as we stabilize, these are the metrics that we are internally monitoring already whether on the current app or on what has gone live at a 5%-10% level, we are monitoring them. Actually, that is what gives us the confidence to increase, so sprint one to sprint two as Kurush said, the happiness was crash rate was high, we would not expand, we would not in this coverage. Crash rate is today at 0.3, gives us confidence to expand to go from 10 to 25 to 40 to 50 to 200.

Kuntal Shah: Just one question, would we be publishing GMV and all other metrics given that?

Rajeev Jain: GMV, the loans that revoke is the GMV, you guys want it, we will publish it. We stopped publishing disbursement data right, that is really what is the meaning of GMV from our standpoint is. If you guys want it, we will publish it, that is okay, but the disbursement data would never correlate, so let us say what we are doing 58, we had a run rate pre-COVID of 54,000-55,000 crores of annual loan volumes. We were moving just in B2B, this is just B2B. Were we moving answer is yes and can we share that data, we can share, but on a more serious note, it will become relevant as the P2B goes live as that clubbed with the P2P and P2M to the point Anup made as the payments online, PG goes live all that clubbed together is how we are



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looking at GMV, so GMV will be relevant conversation as we accelerate the payment's frame. Between P2P, P2M, PG, POS and our loan volumes, that is really how we see the payment stack to be. These are the five stack frames and we do foresee this number to be reasonably substantial in a three-year horizon.

Kuntal Shah: Thanks and I really look forward to seeing these numbers because I think so directionally that would set the tone of our customer engagement.

Rajeev Jain: Thank you.

Moderator: Thank you. Ladies and Gentlemen, due to time constraint that would be our last question for today. I now hand the conference over to Mr. Anuj Singla for closing comments. Thank you and over to you, Anuj.

Anuj Singla: Thank you Aman.

Rajeev Jain: Wish you all a very Happy Diwali, and go and shop, and we are there to support you, thank you all.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of Bajaj Finance and Bank of America Securities, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.