



“Bajaj Finance Limited Q2 FY-25 Earnings Conference Call”

October 22, 2024



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Moderator: Ladies and gentlemen good day and welcome to Bajaj Finance Limited Q2 FY25 earnings conference call hosted by JM Financial Institutional Securities Limited.

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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sameer Bhise from JM Financial. Thank you and over to you sir.

Sameer Bhise: Thank you, Neerav. Good evening, everyone and welcome to the 2Q FY25 earnings conference call of Bajaj Finance.

First of all, I would like to thank the Management of Bajaj Finance for giving us the opportunity to host the call. From Bajaj Finance Management Team, we have Mr. Rajeev Jain – Managing Director, Mr. Anup Saha – Deputy Managing Director, Mr. Sandeep Jain – COO and CFO, as well as the entire Senior Management Team of Bajaj Finance and its subsidiaries.

As always, we will have opening comments from the management team, post which we will open the floor for Q&A.

With that I would now like to handover to Mr. Rajeev Jain for his opening comments. Over to you. Thank you.

Rajeev Jain: Thank you, JM, thank you Sameer. I also have with me Atul Jain – Managing Director, BHFL with me on the call. Very good evening to all of you or good morning depending on the geography.

I will just take you through the presentation that we have put on the investor section of the website.

I will jump straight in on panel #4. On a consolidated basis I would say mixed quarter for us as a firm. Good quarter in terms of volumes, assets under management and operating efficiencies. Loan losses remain elevated in Q2 as well as they were in Q1.

As a result, profit growth and return on assets were muted for the quarter. We overall delivered AUM growth of 19,732 crores in the quarter, booked 9.7 million loans and added just a tad below 4 million new customers to the franchise in Q2. Bajaj Finserv app now has 61.7 million net users.

In terms of AUM, the overall consolidated AUM came in at 3,74,000, just a tad below that, OPEX to NII continue to improve, so expenses remain in control, came in at 33.2%, PBT grew to 5,401, PBT growth of 14%, PAT came in at 13%. This is as a result of the minority interest

in BHFL. PAT grew by 13% to 4,014 crores; ROE came in at 19.1% and net NPA came in at 46 basis points.

I will quickly take you through some of the highlights on panel #5:

As I said AUM grew 29%. New lines of businesses that we launched in the last five-six quarters have now started to contribute 2% to 3% of AUM growth. Overall, AUM composition which is appended in the latest section of the presentation on a year-on-year basis remain largely stable. Now the AUM growth I have talked about, new loans booked were up 14% to 9.7 million as against last year we did 8.53 million. In terms of customer franchise, we added 4 million customers.

We now estimate that our overall new customer addition to be 15 to 16 million in FY25 which will be in line with what we originated last year marginally higher, last year we did 14 million customers, this year we foresee between 15 to 16 million new customer addition. Customer franchise as a result of the first half of the year having added 8 million new customers stood at 92.1 million customers and we are optimistic of crossing a milestone of 100 million customer franchise in FY25 as we finish the year. Cross sell franchise which is a key measure of good to not so good was at just a tad below 58 million customers.

In terms of liquidity:

Liquidity buffer stood at 20,200 crores. Cost of funds came in at 7.97%, an increase of 3 basis points on a sequential basis. In general, our assessment is that the cost of funds for the company has actually peaked now. Deposits book grew by 21% and stood at 66,131 crores. Deposit book growth is obviously softer, given that there's a significant amount of price war that's happening from across the system and given the fact that the company has raised and has found other alternative sources which are more attractive in terms of coupon. The deposit book growth is slower than expected.

On the next plan:

In terms of operating efficiencies, the net interest income grew by 23% to 8,838 crores. Overall NIM in our assessment is now stabilized, between Q1 and Q2 there is hardly any drop. We think the NIM is now stabilized at these levels from here on. Net total income grew by 24% so NII grew by 23%, net total income, NTI grew by 24%.

OPEX to net total income improved to 33.2% versus 34% last year same time. We continue to optimize operating expenses I would say. As I have said in the past calls that it's one of the levers that we have to continue to pull through both by optimization on the one hand and continue to invest in technology which is mainly GenAI to improve productivity. Employee headcount stood at 59,400 people.

On a consolidated basis, we added 4,007 staff in Q2. Annualized attrition was marginally higher than last year at 16.4%. Credit cost which was the dampener for the quarter, I would say because when I look at the PPOP number, came in at 25%. PPOP number was good, so we managed to do well on AUM, managed to do well on NI and I managed to do well in managing expenses. But credit cost was a dampener for the quarter. It was so in the last quarter as well. I will give you some update on that over the next four or five points.

Gross loan loss and provisions came in at 1,934 crores. They remained elevated in Q2 as well. If you break up the loan losses in terms of Stage-1 and Stage-2, in Q2 Stage-2 assets have actually reduced by 357 crores and because of elevated Stage-2 in Q1, Stage-3 increased by 900 crores. And as a result, the net increase in Stage-2 and Stage-3 assets on a consolidated basis was 542 crores. It is lower at one level than the previous quarter. It was across all as I will take you through the panel later retail and SME lines of businesses. So, it's not restricted to any one segment or any one geography or anyone. There's marginal inching up across all retail and SME lines of business. We as a prudent company continue to take risk actions by either cutting segments or pruning exposures.

The gross loss came in at 2.16%. In Q1 that number was 2.12%. So, there was sequentially a 4-basis points movement. It was 2.16. Same number, sorry. Gross loss to average assets was 2.16 as it was in Q1 as well. We are cautiously optimistic looking at the portfolio movement or gross flow rate methodology that loan loss to average AUF has hopefully peaked and we estimate loan loss to average to go down to 2% or so by Q4. That's really what our estimates at this point in time is. We will of course continue to watch the environment and continue to invest in debt management and risk management to sharpen the pencil.

Net loan losses as a result of 2.16% came in at 1,910 crores. We utilized a management overlay of 25 crores and as a result net loan loss to average AUF came in at 2.13%. If you recall, we had estimated that our net loan loss to average AUF should be in the corridor of 1.75 to 1.85% for FY25 with improvement projected in H2. At this juncture from a guidance standpoint, I would say that we estimate the FY25 net loan loss to average assets to be between 2% and 2.05%. Now it's more likely to be 2.05 than to be 2. As a result of this, the GNPA and NPA stood at 1.06% and 0.46% as against 91 basis points and 31 basis points. They still remain amongst the lowest in the industry. But we have seen on a year-on-year basis slight inching up.

When we look at the portfolio movement across secured unsecured portfolios, one thing I think jumps out in general is that those clients who have more than three or more live unsecured loans are showing higher propensity to default and in general have lower downstream lower collection efficiencies. So, as we look at this data, we are continuing to tighten our underwriting norms for such cohorts of customers across all our products in an intelligent manner. I think that's really the update on credit costs.

In terms of profitability; consolidated pre-provision profitability grew by 25%, consolidated profit before tax grew 14% to 5,401 crores and PAT grew by 13%. The ROA came in at just a

tad below 4.5% and ROE came in at 19.1% and capital adequacy continue to remain reasonably strong, Tier-I capital was just a tad below 21%.

I just wanted to provide two important updates as an additional update's standpoint. As you would recall that we as Bajaj Finance started doing non-Bajaj auto two-wheeler financing business in June '22. In September '22 Bajaj Auto also decided to set up its own captive financing unit namely Bajaj Auto Credit. BACL started its operations in Q4 of FY24 which was 6-7 months ago. In FY24 Bajaj Finance financed 864,000 two-wheelers for Bajaj Auto and 199,000 three-wheelers for Bajaj Auto. In H1 so far BFL has financed 217,000 two-wheelers and 55,000 three-wheelers of Bajaj Auto, principally meaning that the rest of the business has been booked in by Bajaj Auto in Bajaj Auto Credit Limited and as a result the company's financing to BAL customers has reduced considerably post start of business operations by BACL. I thought it's important that we provide this update. As you are also aware, we started our non-Bajaj auto two-wheeler financing business in 2022 and it's already grown to around 35,000 accounts per month. That means we have a run rate at this point in time of 480,000 accounts on non-Bajaj auto two-wheelers. We expected to disburse just a tad below 500,000 accounts in the current year and scale to 720,000 accounts in FY26. So, as the as Bajaj Auto products AUM goes away this AUM will replace it fully by FY27, by end FY26/FY27.

On the three-wheeler business, we are still evaluating what our strategy should be. So, that's something that's still open. But the two-wheeler business volumes we hope to fully mitigate or makeup for by March '26 or so. That's just an additional update as it has financial implications. I thought we would just provide an update.

Just a last point on that we had so far investment grade rating for our international borrowings from S&P. We were rated investment rate by S&P. We are happy to inform you that Moody's has also assigned a Baa 3/P long term rating which is the sovereign rating to Bajaj Finance as well. So, these are the two additional updates that I have.

I will just quickly run through some of the panels; for BHFL you would have listened into the call yesterday that the management did, so I am just skipping that. I am on panel number, in terms of rest of the panels are reasonably routine. If there are any specific questions, we will be happy to answer.

I thought it's important I open the call for Q&A. All of the panels are completely routine in nature.

Moderator:

Thank you very much. We will now begin with the question-and-answer session. First question is from the line of Chintan Joshi from Autonomous.

Chintan Joshi:

So, two questions, one on asset quality and one on NII. On asset quality, could you give us some more color on what gives you the confidence that slippages and credit costs may have peaked out here would be interesting to get some idea across different products and different trends that you are seeing, both in your data and perhaps industry data that you observe. And then on net

interest income if you could please help us think about where our NIMs might go over the next year with the rate cut likely, what would the timing benefit be in terms of NIMs peaking would be helpful.

Rajeev Jain:

So, let me use this to principally just take you through the portfolio quality. The main interesting thing that we are seeing in the cycle is actually that the bounce rates are still lower, the portfolio quality when you see on the panel is still holding and the flow rates are higher. People are still defaulting lesser. I keep telling people prior to Covid, people think it's too far away. The default rates are still lower, the flow rates are higher. So, one of the things that we have done is looked at the capacity planning and the debt management infrastructure. Out of 4,007 people that you principally saw that we have added in Q2, close to 2000 people have been added in deeper geographies as a result of our sharpened capacity planning. So, that gives us one level of confidence. Two, the underwriting actions that we have taken in the last 4-5 months, also gives us the confidence that as we move through, the leverage point that I made, should start to result in benefit from Q4. But as I use the word, we are cautiously optimistic. We hope that the environment continues to remain stable. I would not call it, I would say if the current state was to remain, given these two actions one on underwriting and two on further investments in debt management, we are cautiously optimistic that we should. If I give you texture that at a point in time in terms of clients who came on board non B2B, non B2B loans are shorter than a loan. So, this point is not relevant. If you had 13% of the clients who came in with (+3) personal loans when we gave them, now it's only 8%-9%. So, that's the impact on volumes we have taken, doesn't mean they're bad but as we have cut exposures on them as we keep doing more and more such actions, we should see the books start to come back to 185 to 195 basis points of credit cost. That's on the one part. Second part is on NIMs.

Sandeep Jain:

I think NIM very clearly as the cost of fund starts to go down. I think with the lag of one or two quarter we should start to see the benefit very clearly emerge to us as well. We forecast that on a 12-month trailing basis, a 25 basis point drop in repo rate should clearly lead to a 10 to 12 basis point improvement in the NIM. However, we would like to use the NIM improvement to our advantage to grow some of the secured and new lines of businesses that we have added in the last couple of years. Idea would be to not take it through the P&L, idea would be to use this opportunity for improving the quotient of secure balance sheet in the overall portfolio and continue to create a resilient balance sheet focusing on the new lines of business that we have launched in the last 2 years.

Chintan Joshi:

Won't that lead to ROA pressure once the cycle peaks?

Rajeev Jain:

At this point in time as Sandeep said, we will use the reduction. As I said if you go back to my earlier comments that the NIM is stabilized that was one part. We think cost of funds is peaked as the cost of funds. So, it's about management of portfolio. At a portfolio management level, our intent would be to use the reduction to grow our low margin secured businesses and we otherwise keep the composition very steady.

- Sandeep Jain:** I think it's important, Chintan that I make this point as we get into FY26. Rajeev did make a point on operating efficiencies getting created by rationalization of operating expenses. At the same time GenAI leading to a lot of areas where we could significantly increase deployment and reduce operating expenses for us. Some of these will become very important mix for us to play over the next couple of years. So, operating efficiency will be in the dimension that we would like to explore in FY26 and beyond that I think Rajeev did make a point saying that pre-provisioning operating profit still remains strong at 25%. So, even if the environment were not to improve, we have a good tailwind coming from pre-provisioning operating profit. That should ensure that any NIM improvement even if it goes towards fueling the secured by the balance sheet new lines of businesses should still be able to assist us in terms of delivery rightful ROAs and ROEs for the shareholders.
- Chintan Joshi:** Just a clarification, Rajeev, you said 185 to 195 previously. I presume you meant to 175 to 185.
- Rajeev Jain:** No. As you said earlier that principally the 172 basis points that we used to be pre-Covid based on the regulatory changes and our write off policy changes adds up being between 185 to 195 basis points. That's really what our forecast is at least for the next I would say next fiscal and then we will take it forward from there.
- Moderator:** Next question is from line of Dhaval from DSP.
- Dhaval:** Three questions. First is on the rural B2C business and also the business and professional loan both of them are color coded yellow. Just if you could give some perspective on when do we see normalization in both these segments? So, that's the first question. The second one relates to cost to income and just to the point that Rajeev highlighted earlier on further operating efficiency. So, somewhere in Covid I think our aspiration was 30%-31% kind of OPEX to NII. Is that what one should expect in the medium term based on the business mix that you are targeting? So, some perspective around how much more benefit can one see in the medium term? So, that's the second one. And the final one is on RBI commentary that we are hearing around various segments relating to growth and asset quality pressure plus the regulatory perspective around NBFC. I mean if you could just highlight how the company is looking at navigating the current environment. Those are three questions.
- Rajeev Jain:** So, look rural B2C as you can see, after a long time after virtually seven-eight quarters it showed a double-digit growth. Clearly, that portfolio has grown in single digits for the last six quarters. As we get through the worst of it, we have started to slowly grow that. We foresee that portfolio it will remain yellow and there comes a time in any credit business where you cut all the bad cholesterol and you have to build the good business. We are 18 months into it. We are moving to a phase where we are starting to build a good business. I think that is #1 on rural B2C that I would like to make. We foresee that business still however may grow only by 12% to 14% on a full year basis. That's on rural B2C at this point in time. Business and professional loans mind you that the hurdle rate bar is very low. As you can see, we color code based on it used to be 99% in pre-Covid. That's our "threshold" number. So, that's one part. It's now at 98.63. That's one part. Two, if you go to SME we have seen some level of elevated flow rate. I am referring

to panel #52. If you see SME lending, you see elevated numbers that, you see the GNPA coming at 164 basis points. It was a year ago 134 basis points. And that's how we have and I repeat Dhaval what I was saying earlier while 98.63% looks like it is fine but as I said across portfolios whether it's SME or retail, the default rates are lower and flow rates are higher. So, that's a little unique situation that we are actually seeing. It's unique is what I would just say. So, given 164 basis point GNPA we have stamped it as yellow. Having said that in that the professional loans part is fine, the MSME businesses are that way only. The risk goes up, we pull back business risk goes down we accelerate. I think that's the nature of the MSME business. So, that's the second point. Operating efficiency is, look we are the most efficient. You would know that as you benchmark us across various peers. As we build on this year's long-range plan or long-range strategy which we will publish in January, the intent would be to dramatically transform our focus on operating efficiencies using GenAI across call centers, to service to what I would call a Phase 3 of digital transformation that we are ready to embark on for us as a firm. Where that takes the number to is an outcome. I think you will see expressions of that when we share in January the long-range strategy. Do we see operating costs as a lever, answer is yes. Will we continue to make progress, answer is yes. I can't say whether the number will get to 31 ever because at our base 31 to 33 is a significant drop. But you should continue to see this number trend down. On regulatory matters, I would not like to comment Dhaval. Do we continue to make deep investments in compliance, operational risk, answer is yes. We have now from 2.5 years ago from very little to now 250 people in first, second and third line of defense we have, answer is yes. Are we on a proactive basis on an ongoing manner looking at areas that we can improve on, the answer is yes, is all I would have like to say. We are investing in all three lines of defense, business and operations compliance, central compliance, internal audit and when the embargo happened, we embarked on a proactive integrated compliance framework and did a periodical review and created a self-corrective regulatory compliance framework for us. So, we're doing all that we can to be from a compliance readiness standpoint as a firm.

Sandeep Jain:

Just to add maybe a couple of points on OPEX to NII because that's the point that you made. I think it's also important to note that over the last 18 months, we have launched lots of businesses, we have made investment in all those business launches and so on so forth. As we go along over the next 2-year period, I think one the investments will be very marginal in terms of only propelling the presence of the businesses and growth. That's one thing. So, this should give us some operating leverage in the subsequent years. Second of course the investment that Rajeev talked about on GenAI capabilities and so on so forth. But the important point is we would like to pace it out, have 20-30-40 basis point in a year, idea is to continue to improve but the same time continue to remain invested in the growth of business. That's a point that I thought I should make. As regards growth, Rajeev did call out at the beginning of the call that while the balance sheet grew by 28%-29% in the current quarter, 2% growth came from new lines of businesses. As we forecast full year, we see the growth at 27%-28% with new businesses and mostly being secured in nature contributing about 2% to 3% of the AUM growth for the current year which means that the non-new business which is old existing businesses that we have in the company, will see a growth of anywhere between 24% and 25% for the current year. We remain guided

by our medium-term guardrails which is 25%-27% AUM growth and leading to a 23%-25% profit compounding. And that's what we remain guided by.

Rajeev Jain: I think the point that Sandeep made on investments have peaked out in launch of new businesses and geographies is an important point. And they should swing from loss to start to breakeven/generating profit as we get into the next fiscal.

Dhaval: Just one small follow up on that rural B2C, do you think by the end of the year we can see the business turn into green which means for next year the growth will normalize or you think it is still few more quarters?

Rajeev Jain: We are cautiously optimistic on that. I would say yes, but we will take it at Sandeep is saying quarter a time, we can forecast the current year. But if we just to reinforce the point, it's possible that as if we exited a 12%-14% growth on a year-on-year basis then next year could start to grow between 23% and 25%.

Moderator: Next question is from the line of Piran Engineer from CLSA.

Piran Engineer: Just a few questions. Firstly, on the overall asset quality environment. So, I know you've mentioned that we have made underwriting, tweaking and improving our collection infrastructure. But what would make the cycle prolong as in this elevated credit cost cycle. For example, you mentioned 8% to 9% of your clients have (+3) loans versus 13% earlier. But you could have other irresponsible lenders lend to these people. So, just trying to get a sense of what's changing right now versus 3 months back.

Rajeev Jain: I think one the fact is that various actions by Reserve Bank has started to slow down the unsecured market. I think if you take the first half if I am not mistaken based on the bureau data, the personal loan year-on-year growth is degrowth if I am not mistaken. It's (-3%) - (-4%). So, I think in terms of disbursements, not AUM. So, clearly the supply side has slowed down. So, in fact that was probably mostly needed to availability had become very easy. So, that's one at a metadata level point I would like to make. Two, as we further prune segments, as we reduce exposure, we're doing both pruning segments and reducing exposures, mix of both these factors and when excesses happen at times there is a phase of excesses post that good also don't last too long and bad also doesn't last too long. Don't believe it will last too long either way. So, as the portfolios get washed you should see improvement. But as I said we remain cautiously optimistic of the same.

Piran Engineer: And just secondly on our fee income, now I noticed that it's a little bit weak considering the fact that the ban on those digital lending products was lifted and that itself was some 60 crores per quarter. So, if I kind of adjust for that it does not look like we have had seen any fee income growth. In fact, we have seen degrowth QOQ. So, anything here to read?

Rajeev Jain: Seasonally its always.

- Piran Engineer:** There is de-growth because of summer season versus non-summer season. But last time we didn't have those digital lending products which are banned and now we would have had it. So, I would have expected to be at least flat. So, is this because of the RBL thing where collections you are not doing for them and therefore fee and OPEX both are proportionally lower.
- Sandeep Jain:** So, Piran, point number one. I think if you are referring to last year whether we had the fee income or the digital lending fee income not being there, last year the action by RBI was in November, the Quarter 2 last year we did have that income from YOY comparable point of view. However, to the other point that you are making on the co-brand credit card where the collection activities was earlier managed by us, incrementally starting Quarter 2 that activity has moved to RBL rightfully so. And that has an impact in terms of overall fee income for the quarter. From a comparative point of view.
- Rajeev Jain:** He was making a point on a sequential basis if I am not mistaken.
- Piran Engineer:** I was asking for QOQ. So, 2 months you all didn't do that product, right?
- Sandeep Jain:** Yes. The answer is then very clearly the transfer of the collection's activity to RBL Bank which otherwise would have come to us as payment towards the collection's activity would have said in the fee income.
- Piran Engineer:** And just on the NIM outlook, did I hear it correctly that NIM will be stable assuming no rate cuts further or is it that cost of funds will be stable but yield could still decline because of portfolio mix?
- Rajeev Jain:** Both are peaked and AUM composition should stabilize, both.
- Moderator:** Next question is from the line of Kunal Shah from Citigroup.
- Kunal Shah:** So, firstly maybe in terms of the overall growth, given the environment wherein we are we have kept on increasing the credit cost guidance as well. But still, we sound bit upbeat on the growth despite Bajaj Auto business maybe, I think that's coming off. Plus, you said like you are tightening few of the standards. But I think that commensurate on the growth still seems to be like 27%-28%. No doubt there is something which is contributing from the new business but existing is also continuing. So, wouldn't it maybe in terms of the approach, maybe in terms of the growth versus credit cost, is there any change in the approach that we are looking or there is no need to change at this point in time?
- Rajeev Jain:** No, there is no need to. As I mentioned earlier Kunal that between 2 to 3 and maybe in fact as we exit the year close to 4% of the growth may probably be coming from new lines of business between new two-wheeler to tractor to new car financing to CV which just went live in July, to gold loan. While it's an old business but growing healthily, these are 5-6 lines of businesses that are yet to if I may say so break out in any given manner. Some of them will start to break out by the fourth quarter. So, if you knock this off, the organic so called even this is organic the organic

number would have looked like 24%-25%. So, it's just the, we use the good times over the last 24 months to launch or complete a product suite as a firm which is helping us continue to generate AUM momentum without having to compromise in any given manner the credit quality.

Kunal Shah:

And secondly in terms of urban B2C, so if you look at Stage-2 that still continues to be quite elevated almost similar to where it was in last quarter as well. And then we had seen this kind of increase out there as well of almost like 38 odd basis points in the GNPA. And maybe as you indicated for SME lending maybe moving from 1.4 to 1.6 made it like get into the amber. Do you see the risk of urban B2C also getting into amber given the collection efficiency and this kind of trend in Stage-2?

Rajeev Jain:

No, we remain watchful Kunal is what I would say and as I said earlier in the call that we saw inching up on panel 51 across. So, clearly there is pressure across. Now mind you can see the numbers and absolute numbers in urban sales finance and rural sales finance are smaller. But one has seen movement across lines on a year-on-year basis. So, we remain watchful and only point I would like to make is that between managing risk and managing growth we will choose credit. We will choose credit. So, it's the only point I would make.

Sandeep Jain:

And Kunal, there's a technical thing also because of number of days logic for DPD classification and given that most of our customers get banded on second there is that one month plus and minus that happens between Quarter 1 and Quarter 2. So, that's one thing that I think is an important point. But leaving that aside, it's also important to the point that Rajeev mentioned the beginning of the call, as part of the portfolio quality that in the current quarter this Stage-2 and Stage-3 has actually gone above 542 crores. And he did make a point that number was much lower than the last quarter. Just to give you context, our last quarter the Stage-2 and Stage-3 on account of various disruption that we had referred to in Q1 and I am not repeating it has seen actually 1,100 crores of movement. So, Q1 had seen 1,100 crores of addition to Stage-2 and Stage-3 versus that in the current quarter the movement to Stage-2 and Stage-3 is 542 crores. So, there is that level of improvement that is clearly visible.

Kunal Shah:

And last question, was that the option to create the management overlay buffer against this one time gain and would you have done that or maybe that was not there from the auditors and that's the reason we inch up the guidance and still maybe not have created any buffer out there against this one off?

Sandeep Jain:

Kunal just to clarify, when we mean option, I think we don't have options. We look at the data points and based on that decide what is the right thing to do. The one-time gain does not necessarily give you an opportunity or option to create provisions. We looked at the information and based on that we did not feel a need at this point in time to create an overlay. However, to the other point that you made, even from accounting perspective the gain sits in standalone financials on a consol basis goes and sits in the reserve. So, if that was a question that was a point that you were highlighting, yes, in the consol numbers it goes and fits in the reserve.

- Rajeev Jain:** And Kunal I will reiterate the point that I made, which I said earlier that if the PPOP is 25% then we have sufficient margin in the P&L for us to sustain any kind of, I wouldn't even, just on this point I would just make a point that let's say if our long term or medium-term guidance/experience, experience/guidance is 185 to 190 basis points. And if you are looking at full year 205 basis points doesn't create pressure. It's a 10% increase or a 8% increase in credit cost doesn't create that kind of; year-on-year comparables are looking bad because we were at 156 basis points at that point of time and we were consuming overlays. If you do apple to apple what our run rate is which is 185-195. Let's say for a moment given our diversity of businesses and the number on a full year basis comes in at 205, even let's say worst case 210 basis points that's a 10%/7%-8%-10% increase in credit cost on a year-on-year basis or from our medium-term experience/guidance. So, I won't lose too much sleep over it.
- Moderator:** Next question is from the line of Viral Shah for IIFL Securities.
- Viral Shah:** Rajeev, I wanted to ask you were talking about the new businesses and then contributing to growth but if I look at the distribution slide, for tractor I see that nearly on a sequential basis the distribution has halved. So, is there anything to read into it or what has happened over there?
- Sandeep Jain:** So, what we disclose out there for the first two quarter is exact number of dealers that we have signed up. Depending on the activation rate that we see as to how many dealers have started booking cases, on a two-quarter basis we do that adjustment. So, if you see that drop is on account of having seen probably less or no business from those counters. It's a very early stage of business. Don't read anything into it. Business is now boarding between 65-70 crores of volumes per month since January. We started the business in January. We are cautiously growing this. It's a business to be grown cautiously only given that it has different repayment behavior and patterns. So, nothing to read into that line. But we are now disbursing between 65-70 crores of volumes a month in Tier-II, Tier-III geographies.
- Viral Shah:** And secondly if I look at the two-wheeler and the three-wheeler business, you mentioned about the Bajaj Auto credit and that business, wanted to understand like is there any the ROA or the profitability differential between doing the non-captive business versus the captive business? Just trying to understand if at all there can be any.
- Rajeev Jain:** No, I think it's a fair question. So, principally looking at the group two-wheeler, this company was formed to do Bajaj Auto product. So, it's a little bit of mixed feeling that as that business goes out, it's a profitable business. But you also used to be as you may have observed over here is also a volatile business. All captive businesses are more volatile than non-captive. It's a global truth in terms of credit performance. I mean during COVID we really struggled. It was 5% of the balance sheet and 20% of the GNPA. But over cycles it was a profitable business. We foresee that the group two-wheeler financing AUM will mostly wind down fully over the next 2 years. In fact, that will since you raise the point, I must make a point. It will actually lead to as this winds down, it will lead to lowering of our loan loss to average AUF. It's an important point I must make. If you look at it today as of September, it's 4.3% of the balance sheet and it is 18% of consolidated GNPA. This is a factual number as of Q2. So, eventually as this book winds

down, we will see the benefit come through in the overall loan loss to average AUF. Correspondingly the non-Bajaj book for us because it's an open architecture business comes in at half the risk cost. That's been our experience over the last 2 years. So, in the short term it has some impact on profitability. Over long term it will be beneficial in building a lower risk business an aggregate for us as a firm. So, I think that's really how this migration or transition will principally play out. So, it's a mixed feeling.

Viral Shah: I understand and thank you for that detailed perspective and because you mentioned also the asset quality piece over there. If I look at your panels that you give in terms of the portfolio quality. So, in that we have seen that in this quarter sequentially it has moved up. Stage-2 and Stage-1 has come down. And even versus if I compare it, I understand even from a YOY basis it's come down. Whereas over this period I would expect that the non-captive business would have built up just in terms of the size in the contribution.

Rajeev Jain: It will take us 2 years. As I said earlier, we are at 35,000. They used to do 65,000. We're doing very little three-wheeler. They used to do 20,000 and every three-wheeler is virtually equivalent to 2.5-3 two-wheelers. So, it will take us as I said earlier 2 years to fully make up for the AUM. So, that's why as I said there'll be short term impact on profitability because AR will go down. By March '26, we will start to make up as much AR addition as Bajaj Auto used to do with us in terms of quarterly addition. But we are very clear it's half the risk cost. That is super clear to us.

Viral Shah: My question was actually more on the asset quality front like what was...?

Rajeev Jain: So, it is going through high credit phase. So, last year was an abnormally low credit phase. I must make a point to you. It's a long term. Average loan loss to average assets has been in the region of 4%. Last year if you see this number looking like 1.5% and recoveries was very high. So, this business went through an ultra-low credit cost phase last year rather last 2 years. It went through '20-21, '21-22 very high credit cost phase. Then it went through an extremely lowest that we have seen in the last I would say 17-18 years phase. It is normalizing but inching up more higher than its longer term trend line. I must make that point as well. So, that's really how volatile we have seen it to be actually, peaking, bottoming and right now rising but rising above the long-term threshold.

Viral Shah: If I look at the rural B2C panel, over there if I look at sequentially there seems to be some bit of improvement. And of course, you mentioned and you discussed that at length. My question was that given the way the cash flows are in the rural India and especially the asset quality pain that the MFI players are witnessing I was actually a bit surprised to look at this. If you can just throw some more light on this.

Rajeev Jain: We would get only 5% of the clients in this entire portfolio who would get not even that much actually. 2%-3% of the clients would probably qualify for a MFI Anup was saying.

- Anup Saha:** The only other point, this is Anup here, when we classify this as rural and what MFI classifies, those are the villages of India. So, MFI would be even one Tier-lower. So, that's the first, 2-Tier lower because those are the 6.5 lakh villages we largely talk about. Our rural is still the smaller towns and cities. And this again point is the MFI equivalent segment will be very small. That would be 3%-4%. So, who can be like household income below 3 lakhs or so on and so forth. There will be not much of overlap there.
- Rajeev Jain:** Separately on this rural stress, as I mentioned always for the last five-six quarters because of the rural B2C that we don't see the so-called rural distress pressure in the B2B business where we deal with millions of customers. So, it's anecdotal but the rural B2B performance is not anecdotal. Even when you are looking at the season's growth at this point in time, we are 15-17 days into the season. We are seeing the momentum to be reasonably strong in rural. So, we are driven more by our experience rather than by our rather than by our anecdotes. So, rural B2B continues to be strong, both in terms of momentum and in terms of credit performance. B2C of course you've seen pressure, and we have acted on.
- Sandeep Jain:** So, for full transparency I think it's important that I call it out. Rural B2C also includes MFI JLG business that is run independently. That's about 600 crores of balance sheet that we have. That's all sitting there. The portfolio continues to remain reasonably healthy out there. It's very young.
- Rajeev Jain:** We will break that at some point in time. It is too small. It's not relevant. That's why.
- Moderator:** Next question is from line of Roshan from ICICI Prudential.
- Roshan:** Firstly you mentioned this 13% number to be the live unsecured loans overlap, so the (+3) live unsecured loans overlap number. That was the case a few years ago. What was it? It was not clear, 13% decrease and 9%.
- Rajeev Jain:** Let me give you full numbers as you are asking. It was 8%. It went to the peak of 13%, is now down to 9%-10%. So, it's not like this is a new thing but the supply of those client's propensity has increased and because the supply increase or availability increase their borrowing pattern increase. So, it's not like it was pre-Covid it was 0, it was 8%. In our in our customer banking. It went up all the way to 13, it's down to 9-10.
- Roshan:** And when I look at this amber color panel and your GNPA movement, the GNPA has increased across the board like you said. But you chose to call out SME lending and rural B2C alone as amber. Anything more to the what you are seeing which is not there in data.
- Rajeev Jain:** It's a management assessment Roshan, nothing else where we are tightening in a transparent manner we are assessing. As I pointed out as you are reinforcing, you have seen movement even in gold loan. On a year-on-year basis 35 basis points GNPA is gone to 53. I am giving example to make a point or a 60 basis points in urban sales finance going to 81. But wherever we tighten and we act on is really what we or things go lower than pre-Covid or higher than pre Covid in

terms of delinquencies. That's how we would in general provide management assurance to be. I hope that makes it clear.

Roshan: The other question I have here is, last quarter you said bounce rates are stable but whatever has bounced is turning out to be very chronic.

Rajeev Jain: Yes. That is as I said the flow rates. I use the word flow rate. It's the same point. The defaults remain lower but flow rates are higher. That is not changed Roshan as yet.

Roshan: And just one last question. There was a suicide case that has happened, so any comments on that?

Rajeev Jain: We are very saddened by the incident and our prayers are with the family. We have referred the incident that happened. It's very unfortunate and sad incident that happened. We referred it to our internal disciplinary action committee for investigation and recommendation and we will go by and we've shared our actionabilities or learnings that we've taken away with the board as well is all I have to say.

Moderator: Next question is from the line of Umang Shah from Kotak Mutual fund.

Umang Shah: I have two questions. One is Rajeev if you could, at the beginning of the call you already mentioned that probably by the end of FY25 you will share our Long range number but you can give some color as to how should we look at the standalone Bajaj Finance entity maybe broadly in terms of growth and profitability and ROE given that Atul has already spelt it out about Bajaj Housing Finance on the Bajaj Housing earnings call. I mean that will give us some clarity on how should we look at the standalone entity maybe from a 2 to 3-year perspective?

Rajeev Jain: Just because we happen to have listed the firm and offloaded 11%, we continue to be 90% just a short of 90% owner of Bajaj Housing finance. And that's why we still look at it as sum of parts while they have the independent journey and independent, but they are 31% of the balance sheet today on a consolidated basis. I don't foresee the composition, their contribution to profitability, etc. so on and so forth to change in any given manner. So, we still look at it as sum of parts of BHFL, BFSL and BFL. And we continue to be excited about both the subsidiaries and of course the core operating business of Bajaj Finance. So, at least in my head until I run it, I continue to look at it on a consolidated basis is what I would say.

Umang Shah: Just the second question is on clearly we are getting a little mixed sort of views or commentaries when it comes to consumption trends.

Rajeev Jain: I assume he is asking question on season.

Umang Shah: Yes, that's correct. On the festive demand.

- Rajeev Jain:** So, look in the discretionary consumption businesses that we are in. What we are principally seeing is that if you look at the first quarter growth for us was 8% in terms of units sold. Second quarter was actually 9%. I am talking when I say discretionary consumption I am talking our point-of-sale businesses which is CD, Digital, rural CD, lifestyle, e-com. So, far if I look at the first, the season festival season started on 3rd of October. We are virtually 18-19 days into it. So, far at this point of time looks like the count growth is like between 20% and 21% between 20%-21%-22% depending on a day. Every day during these 30 days is important. The season will end on 3rd of November. So far 20 days into or 19 days into the season, numbers looking like 21% in terms of count. In terms of value, in terms of discretionary its clearly prices have cooled a little across phones and televisions and so on and so forth. Given reduction in raw material prices we are seeing a 19%-20%. So, I would call that on our base a good number. So, if I take our and mind you, we're talking 2 million kind of number being disbursed. So, it's a very large representative sample of what we are seeing at least in our categories so far in the first 19 days of the season.
- Moderator:** Thank you very much. Ladies and gentlemen, we will take that as a last question. I will now hand the conference over to Mr. Sameer Bhise for closing comments.
- Sameer Bhise:** Thanks everyone for joining this call today evening and thank you to the team from Bajaj Finance for giving us the opportunity to host the call. Thank you Rajeev, Sandeep, Anup and Atul. Thank you.
- Rajeev Jain:** Thank you all.
- Moderator:** Thank you very much. On behalf of JM Financial Institutional Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.