



Bajaj Finance Limited  
Q3 FY '26 Earnings Conference Call  
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**MODERATOR: MR. SUBRAMANIAN IYER – MORGAN STANLEY**

**Moderator:** Ladies and gentlemen, good evening, and welcome to Bajaj Finance Limited Q3 FY '26 Earnings Call hosted by Morgan Stanley. This event is not for members of the press. If you are a member of the press, please disconnect and reach out separately. For important disclosures, please see the Morgan Stanley disclosure website at [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures).

Please note that this call and your questions will be recorded and may in certain circumstances be distributed to clients and/or made publicly available. By participating in this event, you consent to such recording, distribution and publication. I will now hand the conference over to Mr. Subramanian Iyer with Morgan Stanley. Thank you, and over to you, sir.

**Subramanian Iyer:** Thank you, Emily. Good evening, everyone. This is Subramanian Iyer from Morgan Stanley. Thank you very much for joining us for the Bajaj Finance Q3 FY'26 Earnings Call. To discuss the earnings, I'm pleased to welcome Mr. Rajeev Jain, Vice Chairman and Managing Director; Mr. Sandeep Jain, COO and CFO; and other senior members of the management team.

On behalf of Morgan Stanley, I would like to thank Bajaj Finance management for giving us the opportunity to host them. I now invite Mr. Rajeev Jain for his opening remarks, post which we'll open the floor for Q&A. With that, over to you, Rajeev.

**Rajeev Jain:** Thank you, Subbu. Thank you, Morgan Stanley, for hosting this call. I have with me in the room, Sandeep Jain, the three Deputy CEOs and the other two Chief Operating Officers. Good evening. Welcome, everybody, to the earnings call. The investor -- I'll be referring to the investor deck, which has been uploaded on our website. I hope you had a chance to go through the same. I'll focus on key updates for the quarter before we move to Q&A. So, I hope to take 15-odd minutes. I'll cover 8-10 panels very quickly.

Overall, from a commentary standpoint, I would just say I'm on Panel 4 that the core performance of the company, eliminating one-time charges of new labor code and the accelerated ECL provision that we've taken in Q3 remained pretty strong. So let me cover that. There'll be a follow-through panel that I'll cover after that. So the core performance remained pretty strong across all key metrics, namely AUM growth.

AUM grew by INR 23,622 crores. Opex to NTI came in at 32.8%. Core profit growth came in at 23% growth and PAT, which, as I said, grew by 23% as well. ROE at a core operating level before the one-time accelerated ECL provision and one-time charge-off new labor code came in at 19.6%. Net NPA came in at 47 basis points. The one-timers in the P&L are principally two that we've actually taken.

Firstly, to enhance balance sheet resilience amidst a volatile global economic environment, the company has further strengthened its provisioning framework by implementing a minimum loss given default floor across all lines of our businesses. And we'll cover that in detail as I cover through the presentation or part of Q&A. I must make an important point that it's purely done as a proactive and voluntary measure by the company. And it's a permanent change to further bulletproof our balance sheet and the resilience of the firm.

And going forward as well, the company will continue to apply the defined LGD floors as we've determined for the future as well. So, one, it's one-time. And two, it will have some level of impact as we -- small, annualized impact as well as we get into next fiscal. The company's principally taken -- let me just cover the INR 1,406 crores provision that was made on an accelerated basis. The Stage 1 PCR as a result of this moved from 74 basis points to 98 basis points.

So that's -- I mean, you know virtually 1% of the assets are now in Stage 1 as you acquired, which is the point I was referring to earlier that would have an annualized impact as well as we get into future years as well. Stage 2 PCR have been increased from -- 30.1% to close to 37% and Stage 3 has moved from 52% to 61%. As I said, these are -- these changes are principally permanent in nature and strengthen the balance sheet, create further resiliency to the business model and to the firm amidst the volatile global environment that we think we are principally in.

The second impact is the one-time exceptional charge of INR 265 crores that we have taken towards increasing gradually liability on account of the new labor code released by the Government of India on 21st November. This will also have an annualized impact as we get into next fiscal. We'll cover that based on the Q&A. The annualized impact is expected to be between INR 100 crores to INR 125 crores annually.

These items you know principally had an impact on -- of course, on both AUM and profit numbers. I'm on Panel 5, which talks on the left-hand side about the before accelerated charges and on the right-hand side about the after accelerated charges. I've covered Panel 5 clearly. I can give -- so -- and what we are more focused on principally

is the core operating performance. These two are one-time charges that we have taken, given, as I explained, one is gratuity related and another being voluntary in nature.

This takes me to the third important event in the quarter, which is gain on sale of BHFL shares. This is another exceptional item that is figuring in the financials of Q3. It's recognized in the stand-alone P&L statement of BFL. On a consolidated basis, it has a -- it's below the line item. As part of MPS compliance, 2% of BHFL stake was sold by Block sale and as a result, the BHFL shareholding by BFL in BHFL now stands at 86.7%. The resulting gain was INR 1,416 crores and has been recognized in stand-alone financials as an exceptional item.

Let me now jump to the more routine metrics that we principally talk about, which is Panel 6. As a result of the INR 1,416 crores, you will see two lines. There's a change. You will see on top the reported number, which is 22%, the core growth number, which is 22%. The INR 1,416 crores also gets knocked off from the AUM, and that's why you see two numbers there. We are focused on core operating performance. Core operating AUM was up 22%. New loans booked were up 15%.

We booked a record 14 million loans in Q3 versus 12 million loans that we did in last year Q3. Customer franchise, just we added 4.76 million customers. We are virtually adding between 4.2 million to 4.5 million new customers every quarter. We now expect 17 to 18 million customers to be added to the franchise in FY '26. It will be on back of 17 million customers we added in the previous fiscal as well. The overall franchise stood at 115 million. We are well on course to cross 120 million franchise in the current year.

The cross-sell franchise continued to expand and stood at 74 million. Geographic presence, as I've made a point in the past that we have mostly peaked out. It's deepening rather than broadening, that's happening, more products in geography rather than new geographies, as you can continue to see, also is resulting in operating leverage as a firm. Active distribution, 241,000 is where we are present in. Liquidity buffer stood at INR 15,100 crores. Cost of funds came in at 7.45%.

It is an improvement of 7 basis points sequentially and COF is expected to be -- we had outlined at the beginning of the year from a guidance standpoint, the number to be between 7.55% to 7.65%. We're likely to be between 7.55% to 7.60% in terms of cost of funds as we exit the year. The deposit book, as we had outlined, as part of the strategy in the current year to optimize that deposits growth will be slower. Deposits contributed 17% of consolidated borrowing as of December '25.

In terms of outlook, in terms of operating efficiencies, just on that from an outlook standpoint, given that we are in -- the year is virtually coming to an end, overall, we've taken a view that the top line growth or AUM growth will gravitate between 22% and 23%, but more likely to be 22% on a full year basis. Given the actions that we have taken in the MSME business, that's something that you'll see, which has grown in this -- in quarter 3 only by 11%.

We think it will still take us two to three more quarters before we are back to 20s growth in that business. So based on the conscious decision that the company has taken to slow it down, we will have some level of impact. And the second order impact is on account of the captive 2-wheeler financing book, which is winding down. Based on both these, we think the overall full year growth will be between 22% to 23%. Operating efficiencies continue to deliver benefit, net interest income grew by 21%. NIMs were steady. That's an important point.

NTI grew by 19%. Opex to NTI continued to improve, came in at 32.8%. The AI implementation, for the first time, we have now started to cover metrics on AI, which I'll cover in a few panels down the line. We've now started to metricize AI, it is moving to what I would call gear two in the company where from innovation, we are now tracking implementation and the benefits that it's delivering to the business.

And we thought that time has come post second LRS or the Investor Day that we did, that we'll start to publish AI benefit metrics to the street. Full-time employees stood at 69,000, virtually 70,000, including all the three companies. Fixed-term contract folks stood at 78,000. Let me just go to credit cost, which has been an important metric of profit growth or the direction of the business came in at INR 3,625 crores.

The core metric came in at INR 2,043 crores, a growth of 9%. So, as I said, we are tracking core because INR 1,406 crores is principally a voluntary decision that we've taken. Year-on-year basis, loan losses and provisions grew by 9%. Annualized number came in at 1.91%. After a while we've seen a sub 2% number. And we think from here on, the number will continue to slide down as we get into next fiscal as well.

In Q3, point number 17 is important. The Stage 2 and 3 on a net basis was down INR 93 crores. The formation had been slowly going down, but there was a decrease after a while in the current quarter came in at INR 93 crores. Stage 2 decreased by INR 287 crores and Stage 3 increase of INR 194 crores, net-net leading to a decrease of INR 93 crores.

The vintage credit performance, which is what we've been tracking since February this year, has across 3MOB, 6MOB and 9MOB and that's what gives us significant confidence as we get into next fiscal from a credit cost optimism standpoint that we are in a good corner as a firm from a credit cost standpoint. GNPA and NNPA, principally an outcome metric, stood at 121 basis points and 47 basis points. Pre-provision profit grew by 19%. That's a core metric in that sense.

And PBT grew by -- as I've already covered that by 23% adjusted for one-timers, it actually de-grew by 6%. ROA came in at 4.6% at a core level, ROE came in at 19.6% and capital adequacy came in at 21.45%. Let me just quickly shift now to the FINAI transformation. I'm on Panel 9. This is the first attempt that we're making to start to democratize AI implementation -- that we are doing to the investors.

The way you should read it is -- at a starting level, there's data for AI, then there is product and service discovery, then there's customer engagement, then there is what are we doing at point of sale and branches, what are we doing for customer onboarding. So, it's a full life cycle of a customer, as I've been saying to everybody that -- we are not testing AI. We are deploying AI across the board, across life cycle.

These are a few metrics we thought which are relevant and important, which demonstrate that how AI is beginning to change the business. So, voice to text conversion of all customer interactions that we do -- AI listened to 20 million calls and converted voice to text and gave us data. Text to data conversion happened for 5.2 lakh customers. And as a result of that, we generated 100,000 new offers on which we did not have information earlier.

So how you're seeing it move is that the first capability did not exist in Q1 and Q2. It just got deployed. So, we'll be able to listen to 100 million calls next year, and we'll be able to convert voice to text as we move forward, in the beginning for sales, then for service and then for DMS.

Similarly, in terms of 100% of videos are now generated by us using AI, 100% of banners are generated using AI, 2.7 lakh videos were generated, 1.2 lakh banners were generated. At customer engagement level, we have 11 AI text BOTs that are live that engage with the customer. So rather than sending dumb SMSs for 11 products now, we have an AI text BOT, which allows you to engage and interact and responds to your queries. The company has 26 products. All 26 will be live between April and May'26.

So, there will be no communication that we'll be sending, which will not have a -- whether service or sales, which will not have a conversational BOT embedded in it. At branch and point of sale, existing customer face match that we're doing, we did 46 million face matches to ensure this is the same customer, if it's an ETB customer who had actually principally come in, giving us much better control over identity.

Customer onboarding in terms of document -- ensuring that auto fill of document happens, whether it's PAN card or Aadhaar. There are 43 such documents that the company has now mapped, which an image extracts with a 95% - 96% accuracy and populates data in our platforms, delivering significant productivity for our employees. Just on Panel 7, auto quality check of documents is now 41%. We intend -- we believe that as we sharpen the model, it will take us to between 85% and 90% over a period of next 15-odd months.

The loan disbursements through AI call center came in at INR 1,600-odd crores. Data converting -- data from those calls led to another INR 325 crores of volumes. So, this is just our first attempt. On technology development, we are clearly seeing between 25% - 45% efficiencies emerging in terms of the development process depending on if it's a legacy platform, then the benefit is much lower or rather, I would say, none. But if it's a digital infrastructure, then the efficiencies can be as high as 45% - 47%. So significant work is being done.

On Panel 11, it will just give you a texture on where we are principally headed over the next six months. We are investing very deep in Agents. We believe that the company would have 800+ autonomous agents across sales, operations, HR, IT, risk and DMS in the next fiscal. That's one of the things we are most excited about. The second thing we're excited about is Consumer AI, which will be on app and web, you will see AI injection, AI summaries start to emerge between May and June 2026.

We are building an altogether new Consumer AI platform in addition to the current 82 million app installs that we have. We expect that by May-June '27, we'll have an altogether new Consumer AI platform for us as a firm, which may allow the same 100 million customers, to go into classic mode or AI mode. So, it will not be another platform. It will allow the customer to choose an option between an AI platform or a classic platform.

Data intelligence, we are continuing -- we're investing very deeply in data annotation across voice, data, text, images and structured data to improve our intelligence on the consumer significantly so that the velocity of the business can improve. So that's really on FINAI. We'll continue to provide update on a quarterly basis from here on, to you, as to how we are transforming the business.

BHFL has already done its results yesterday. They've had a very good quarter. AUM grew 23% and despite very high competitive intensity and higher portfolio attrition and the PAT growth was 21% and ROE was 2.3%. Asset quality for them remained quite healthy at 27 basis points and NNPA of 11 basis points.

BFSL had a very good quarter. AUM grew 63%, profits grew 74%, and they added 104,000 customers in the quarter and delivered an ROE of 13%.

Lastly, I'll just make a point, some of you were there for the Annual Investor Day, I would just request you all to go through our annual investor day deck, which covers in detail as to what on a rolling basis is our ambition as a firm, which is to be a customer-centric company serving all needs of the customer. We foresee that we will be a 200 million customer company in the next 3 to 4 years' time. The market share of current franchise or the future franchise is very, very large. We want to have a larger and larger share of that customer's wallet.

We want to be clearly a technology leader in financial services in India. And you can see that conversation leading to the earlier FINAI point that I was making. And we want to clearly be the lowest risk business in India. In a way, it demonstrates the balance sheet resilience action that we have taken is coming in from these three, they are all connected. They are showing up in Q3 financials in that manner.

And you will continue to see acceleration of these three areas as we progress well into FY '27. I'm 21 minutes into it. I think that's really all from me, and we are happy to take questions.

Just before Subbu opens it up for questions, last point, which I usually do, which is on Panel 58, 59, 60 and 61, other than business and professional loans, we are principally all green. In general, we are quite optimistic about the credit cost outlook as we step into FY '27, is how I would conclude and happy to take questions.

**Moderator:** Our first question today comes from Viral Shah with IIFL Capital Services Limited.

**Viral Shah:** Hi, thank you for the opportunity for letting me ask the question. So, Rajeev first with regards to the ECL provisioning, I'm sure I think there will be -- this will be the one thing that people are going to ask.

But I was wanting to check and get a sense of the structural change that you mentioned in your commentary. What we are seeing is that there is an increase in Stage 1 and 2 PCR. So, does this mean that your steady state credit cost could look higher than what otherwise it would have been? And if yes, then basically what would be your say on guidance for FY '27? And secondly, if you can just comment with regards to your growth outlook more for FY '27? That's two questions.

**Rajeev Jain:** I'll give the easier one first. The first one requires a little longer explanation. We'll provide FY '27 guidance along with Q4 results, which is normally what we do every year. So, we'll provide that guidance along with Q4 results. I'd rather let Sandeep give an answer I've already spoken for 25 minutes. Answer is same, so don't worry.

**Sandeep Jain:** Yes. So, I think as Rajeev called out, these are the actions that we have taken on a voluntary basis. We looked at all the products in the company, and their current coverage ratios. We looked at where we want the coverage ratio to be as we go along from here. Rather than making a provisioning in one of the stages, we ensure that it follows the process. We redefine the loss given default metric by defining a floor across businesses and ensure that they are uniformly applied across all the stages.

I'll give you an example. So, for example for a business, we define LGD floor at 80%, which means the moment a customer goes into NPA, we would have at least 80% provisioning coverage done. The ECL for Stage 1, Stage 2 gets calculated as a combination of probably the default, exposure default and LGD. We'll ensure that the LGD even for Stage 1 and Stage 2, is revised to 80% to ensure that it also reflects the rightful provisioning at that level as well. So, it has been done on a holistic basis across all businesses by redefining the LGD floor. That's point number one.

Point number two, yes, this will have a cascading impact because as the balance sheet grows, we will have additional impact coming on account of higher coverage ratios that we want to incrementally maintain. However, I would say that those numbers will not be significant in nature.

All goes well in the next year based on the estimates that we have done, the number could range between INR 300 crores to INR 400 crores of additional provisioning, which will ensure that not only are we taking action in the current year, we are also continuing to take the similar action as we go along from here. The incremental impact will not be significant. It will be spread across the year, which is over the quarter and we will ensure that the resilience point that Rajeev referred to is continued to be maintained as we go along from here.

**Viral Shah:** Got it. That's very clear.

**Rajeev Jain:** We could have taken a view to do an overlay, given the environment, global environment, not local environment, we took a view to do a permanent provisioning change. I think it's an extremely important point that I must make. Over and above and creating a floor that at a design level that this is what -- because, look, ECL models need 10-year data to be built. I mean at the end of the day, that's really how -- and logically should not have events, which is both are not true. So, after considerable thought process we have taken this decision and it's permanent in nature.

**Sandeep Jain:** And as the Board and committee approved the change, I think they were also very clear in communication that we should make permanent change and continue to follow it on a go-forward basis. They would not like to have a judgment coming into play, which could have been the case had we created this in the form of overlay. I think that's the point.

**Viral Shah:** Got it. And just an additional thing over here. So, I understand that this is a decision by the Board to do this. But is there any, I would say, timeline wherein they will periodically want to re-evaluate whether this is the new normal could we say a year or two, three years down the line or this is cast in stone?

**Rajeev Jain:** I want to correct you, this is by management, point number one. Two, fully supported and ratified by the Board. Three, we've taken a view that this is how we'll run for two to three years and then take a view. Your question is correct.

**Viral Shah:** Got it. Very clear, Rajeev.

**Rajeev Jain:** And guidance we will give along with Q4.

**Moderator:** The next question comes from Abhijit Tibrewal with Motilal Oswal.

**Abhijit Tibrewal:** Yes, good evening. And thank you for taking my question. Just two things. One is, Rajeev, you just explained this was a management decision, which was fully supported and ratified by the Board.

But just trying to understand, I mean, why this decision now and you spoke about this decision being taken in the context of global uncertainty. I mean if you look at it, right, I mean, yesterday, we concluded the U.S. tariff deal, right? I mean so to that extent, things might actually start looking better from here.

If we think about it last two to three years, India on the retail side of lending, right, has seen a credit cycle in almost every other retail product, but for home loans, LAP and maybe gold loans. So, what is it that really prompted this? While I appreciate the fact that it just gives more resilience to your balance sheet. But the fact that we are now looking at higher LGDs on each of the products, what was the rationale behind doing it and doing it now?

**Sandeep Jain:** So, Abhijit as you would recollect, the recent times have been extremely volatile, not only in terms of just the external environment, also in terms of how the credit quality in general has behaved for various players. We have seen issues coming in and going from unsecured business to MFI to MSME and so on and so forth. We want to ensure -- we want to use this opportunity to ensure that the balance sheet and the P&L are shockproof.

And one of the ways of doing that is to create a permanent change in ECL model and ensure that we are more than adequately covered from a provisioning perspective. And that's the call that we have taken in the current quarter. This could have been done in quarter 4, could have been done in previous quarter, could have been done one year down the line. Whenever we would have done, the same question would have been asked why now.

They can never be answered for a why now. I think as we found the last few quarters to be highly volatile and given that we were not aware about what's happening, what's going to happen last evening, we were quite clear that given the volatile macro-economic and global environment that we were living in, it was important for us to protect ourselves with additional provisioning.

**Rajeev Jain:** I'll just make added point from -- so that the question is in addition to why now to the direction of travel on credit costs, okay. We foresee that the number next year as we enter could be anywhere between 165 to 175 basis points, that's the number, including the permanent provisions that we're talking about. That's the direction that we are principally headed in.

You will see that now it could be 165, 170, 175, but I'm just giving you a direction, but that is where -- and I made the point in the past many times that I'm chasing as a firm FY19-20 metric. That is really where we used to be. Next year, it will be 4x that size. And as a result, the several cuts in the business and so on and so forth that the firm has taken over the last 12 months to ensure that credit is our business.

And if we get that right and it must reflect in the annualized number that we are talking about. So just break this to, what we've done now, including the permanent change the number would look between 165 and 175 basis points at this juncture is how we think about it.

**Sandeep Jain:** I think on a lighter note, Rajeev, there could not be a better occasion to communicate and give the message to Deputy CEO's and CRO than making them accountable on our earnings call.

**Rajeev Jain:** We will deliver that.

**Sandeep Jain:** Yes. I want to say that...

**Abhijit Tibrewal:** And then just a follow-up on that. I mean, this quarter, maybe it was just a coincidence that, I mean, we sold a stake in BHFL and like we had seen in the consolidated that comes below the line. Given that, over the course of time, you will have to kind of keep reducing your stake in BHFL to meet the MPS, can we expect that rather than that accreting to your net worth, it will predominantly be utilized for further improving the value chain?

**Sandeep Jain:** We were expecting that this question will be raised regarding the timing of the provisioning. I think as I recollect same time last year, I think this was quarter 2 earnings call when we had done IPO of BHFL, the same question was asked, why not utilize the gain -- exceptional gain in terms of making incremental provision? I had noted on the point. I'm not saying that the points are correlated, but this was a point asked last time as well.

We did have a gain of INR 1,416 crores, and we did make a provision through a floor introduction for LGD of INR 1,406 crores in the current quarter. And I think I'll stop here. I think the most important thing is as we get more opportunities in future in whatever ways and means, we would like to further enhance our provisioning resiliency from a balance sheet perspective to again ensure that we are shockproof and resilient as a business model.

**Abhijit Tibrewal:** I just wanted to squeeze in one last question on business. On the MSME side, I mean, you've explained for the last couple of quarters that whatever we've been seeing in unsecured MSME is predominantly because of customer overhead really. Was there some problem or some customer cohorts which were also impacted by tariffs and which could get better now that this U.S. tariff reduction got announced yesterday? What I'm trying to understand is some...

**Rajeev Jain:** We saw some -- not material. So, it is yet to play through. And we are mostly -- as I was making a point that over the next two quarters, we think we'll be done. But as you're looking at the 3 MOB, 6 MOB, 9 MOB of the MSME business, we think by June quarter or so, that business should also be back in -- between July and September quarter, that business should also be back in the 20s growth.

**Sandeep Jain:** Yes, if I may just add on the MSME point, I think we had called out this last quarter as well that looking at the portfolio, looking at the information at industry level, leverage, location, bureau and so on and so forth, we have taken a set of policy actions on underwriting and credit policy, which led to about 25%-30% reduction in volume. We are clear that until the time that we see full revival of the portfolio, we call it incipient stress, but we have to see full revival of the portfolio. Early readings are looking good. See would like to continue to hold the credit policy as tight as possible. Maybe sometime in Q1-Q2 next year as we see full revival, we are more than happy to grow the business again.

**Moderator:** Our next question comes from Piran Engineer with CLSA.

- Piran Engineer:** Congrats and thanks for the extra slides on FINAI. Before my question, just to confirm, when you say the stake sale gain in the consol financials is below the line, so it's part of the net worth. It just directly goes into the net worth, is it? Sandeep?
- Sandeep Jain:** Yes, Piran, you're right. It goes and directly sits in the reserves. It doesn't come in the P&L at all.
- Piran Engineer:** And the full INR 1,400 crores or is there a tax impact?
- Sandeep Jain:** The entire amount net of tax goes and sits in the reserve line. And it's obvious, right? In the consolidated financial statement, Bajaj Finance, Bajaj Housing Finance and Bajaj Financial Securities is one entity. I cannot make profit by selling myself. So that goes and fits in the reserve rightfully by accounting standard as well.
- Piran Engineer:** Yes. I mean it's like a re-valuation. But anyway, I don't want to argue on that. Secondly, now that you've put a floor on your LGDs in various segments, does this also mean you will accelerate the transition from this floor to 100% provision? Or in other words, would you accelerate your write-off policy also because of this?
- Sandeep Jain:** I think as regards write-off policy is concerned, Piran, we are -- which is reasonably prudent. We ensure that all kinds of secured, unsecured loans get written off at six installments overdue, barring mortgages, which has a very long tail and some of the other businesses, which are -- which have a high amount of -- or high reliable value on the collateral front. So, barring those businesses, we do write-off at six months overdue. At this point in time, we have defined the floor that we find appropriate.
- I'll give example for some of the business, we would have defined the floor at 75%-80%. For some other businesses which are secured in nature, have very strong collateral, the floor maybe 40%-50%. We'll keep revisiting it on an annual basis and wherever we feel appropriate to intervene and enhance the LGD coverage, we would probably take those actions. And whenever we take those actions, we'll call out as well.
- Piran Engineer:** Got it. And just secondly, your fee income growth of 30% Y-o-Y is pretty strong compared to what we've seen in a very long time. And that too when the festive season was partly in 2Q, partly in 3Q. So how do we -- is there some one-off or is this the rate of growth that one should expect?
- Rajeev Jain:** Piran, this should gravitate closer to -- from the next fiscal gravitate closer to between 18% and 20%. It's just normalizing is what we would say.
- Sandeep Jain:** There were one-timers in the last year, we had some INR 80 crores of gain sitting in the other operating income on account of sale of written-off portfolios. We don't have any such gains in the current quarter. In fact, if at all, there was one-timers, the one-timers were sitting in the last year same time rather than the current quarter.
- Piran Engineer:** No, Sandeep, I'm referring only to the fee and commission line item, the INR 1,960 crore line item.
- Sandeep Jain:** There's no one-timer. This is core growth. Yes, core growth. And as Rajeev alluded to, as we get into FY '27 onwards, this number should be in the range of, say, 17% - 20% growth on a Y-o-Y basis.
- Moderator:** Our next question comes from Abhishek Murarka with HSBC.
- Abhishek Murarka:** Yes, good evening. And thanks for the opportunity. So, two questions. One, just on cost of funds, can you talk about how much scope is there for it to come down further? There would be some back book repricing left or largely it's pass-through?
- So, the second one was on vehicle finance specifically. Now your disbursement market share, etcetera, is quite low across used car, new car, tractors, all of that. Just from maybe two-year perspective, do you have like an AUM target in mind or size or scale in mind or disbursement market share in mind, something from the point of view of how it can accelerate or grow from here?
- And the second thing is broadly, if we look at vehicle finance across the industry, the ROAs are lower than what you make on a consol basis. So, if you're going to grow faster in vehicle finance, how do you propose to offset the ROA impact in the whole book from this? So just wanted to get some sense of your plans in that.
- Rajeev Jain:** No, no, the plan is very clear. If you actually go to the first nine months of growth in AUM, okay, I mean, MFI is small, but otherwise, our gold loan is, of course, growing at an industry level. We foresee businesses growing-- B2B business because given its size, would probably grow in mid-teens, but rest should all grow between 20%,

okay. It could be a lower end of 20% to a higher end of 20%. It could be -- barring aside gold loans and MFI would also normalize next year.

I think gold loans will continue to grow as long as the price holds. We are increasing distribution on a sustainable basis in gold loans. So, we foresee that continue to grow. But leaving aside gold loan, every business has nuances, we are very clear that we just grow them organically in the 20s. If we have strong tailwind on the P&L of that line of business, it can grow faster. If it has headwinds on the P&L, it will grow slower. So, like new car finance margin is very, very fine. So, the business needs to grow what it can sustain.

If you see, it grew 26%. Overall, car loans grew 26%. Used car actually is not here, probably de-grew because credit was not holding. The new car grew 38%-39%. So, we have a long-term plan for each one of these lines of businesses. As I say, if in five years' time, they're not minimum \$2 billion in size each, we wouldn't get into the business. But in addition, at a philosophy level, each business must deliver a sustainable ROE that has been benchmarked within the firm to ensure that we can get capital allocation for that business.

So that discipline, we want to ensure. So now let me summarize the point. That means that new car financing next year would probably still grow in the early 30s. Used car may grow still slowly in the first half of the year, second half of the year should be better.

We are in now control of credit in used car. CV and tractor, they are small, but should grow 30%, 35%, 40%. As they generate profitability for each line, they get the capital allocation, they grow. That's our philosophical view from a capital allocation standpoint. Don't want to chase. If we chase, we have seen it leads to -- it is not necessarily beneficial to the firm or to the business as well.

**Abhishek Murarka:** If you're targeting a profitability metric, it's more ROE than ROA.

**Rajeev Jain:** It is ROE and ROA both. I mean we give same amount of leverage to each business other than the mortgage business in the company. So just as a prudence of capital standpoint. So, I mean we can take this offline conversation, somebody may argue why and why not, but we give same amount of capital to each business at a leverage standpoint and also establish rightful benchmarks for ROA and ROE to ensure that they can go out and deliver it. That's all.

**Moderator:** Our next question comes from Shreya Shivani with Nomura.

**Shreya Shivani:** Yes, thank you for the opportunity. I have two questions. My first question is on the urban B2C or rural B2C these two books, urban B2C rather. The growth here has come down to about 20% or so. Is there any competitive -- competition increase in this segment that we could highlight? Or any other color that we can give on this book?

My second question is on the gold book, which has been growing quite well. So, the branch count has crossed 1,200 I think, in this quarter. What is our plan for the next year? And yes, any details around the gold book going ahead?

**Rajeev Jain:** No, just I think just related to businesses, and I want to refer back to even Abhishek's point, I want you guys when you get time, to refer to -- Panel 91 of the deck, you'll principally see what our market share is. And as I outlined, our overall market share across each one of these lines of businesses remain small.

So, whether you take urban B2C or rural B2C, to give you an answer, the personal loan market share is at 8%, whereas our franchise is at 30%. Similarly, for Abhishek's question, his question was absolutely right and my answer was correct that I have a 1% market share. Now I can go to 4% because my franchise is doing 36%, okay. My BFL franchise annually of the cars loans done in the country gets 36% of the loans. Our share is only 1%. So, opportunity is tremendous. It must make rightful economic sense for that line of business to do so.

And we actually think the customer-centric strategy that we have outlined would deliver that. Principally, look the biggest issue in financial services anywhere in the world, remains cost of acquisition. We have 120 million franchise. As we integrate AI transformation, as we take digital transformation deeper, as we deliver discovery much better on the web, we have a franchise to be able to mine, farm, deliver lower credit costs. That's really the overall customer-centric strategy. It leads to whatever market share we get to.

We don't have a problem of growth, 8% number a year ago was 7%. It was in '19-'20, 9%, okay. It was at 9%, went down to 7%, it's back at 8%. It must meet the hurdle rate of risk and the profitability for us as a firm to grow volumes. That's the point, and I should have mentioned that even as part of Abhishek's question.

It's there in 91. So, there's nothing in urban B2C. We are pretty comfortable with the mid-20s and the late 20s growth stance depending on how we're seeing credit move. It's not a franchise problem at all. I hope that answers your question.

**Shreya Shivani:** Yes, just a follow-up. So, you're saying that pre-COVID till now -- from 2019 till now, our market share probably in this segment has been in this range only, under 10%, right?

**Rajeev Jain:** Yes. Yes. That's correct. Between 7% and 10% is what it gravitated around. Mind you, Shivani, if I may make a point, we know the competitive intensity in '19-'20, and we know the competitive intensity now. I would say it's 3x of the entire public sector banking ecosystem didn't participate in urban B2C, rural B2C at all, I may say so, or was much smaller participant. It is the largest personal loan lender in India in terms of market share is SBI today and so on and so forth.

So, the competitive intensity has magnified significantly, not just across personal loans, across each one of these lines of businesses. We've continued to grow. That's one part, continue to maintain market share, second part and continue to ensure that we sustain the return on assets and return on equity. I think that's the most important part because growing balance sheet in our business is not a problem. Growing profitability on a sustainable basis while we grow is really where the proof of the pudding is.

**Shreya Shivani:** So, then that probably explains the revision in the LGD floors. Would that be correct? What you were talking about the 3x increase in competitive intensity out there?

**Rajeev Jain:** Partially, it's true. I mean if there is only one red flag that I would have is that the overall consumer leverage remains an area of concern. It's not directly attributable Shivani, I would just make a point. But if there is only one red flag that I continue to have is that consumer leverage continues to remain an area of concern.

Thankfully, on a year-on-year basis, as far as the bureau data shows, it's not grown. It's flat. I think after a while, it's flat on an aggregate basis. We'll wait for March numbers to come by June or so. But it seems at this point of time on a year-on-year basis for first eight months, consumer leverage is flat. So that's a good sign. But that's a red flag that I continue to have. It's indirect. I want to make sure that the point is not mingled.

**Sandeep Jain:** Just on the LGD piece, I think as you see Slide #54, where we have provided provisioning coverage ratio by business. We've already taken the urban B2C to 80% provision coverage ratio. So, to the point that you were asking on LGD, we've already taken at 80%. Even if there's a worsening that we see in the market, ECL keeps going up. We may not see impact in our portfolio because of the actions that we have taken. We are done, I would say, at 80% PCR ratio.

**Shreya Shivani:** Got it, sir. Sir, just my question on the gold loan. What will be the strategy for next year, if you're going to share now? Or will you share it in fourth quarter?

**Rajeev Jain:** Sustained distribution expansion, that's one part. We will continue to expand. We foresee business continue to grow strongly. But gold prices have -- so we will do what is in our control, which is distribution expansion. As AI transformation happens, our existing branches will continue -- but customers have no need to walk in. As I've said in the past that 3% of the franchise used to walk in, given what we've delivered on app and the digital transformation and now on the BOT, less than 0.6% is walking in.

Our existing branches will continue to morph into gold loan branches. That's one part. Two, we will continue to expand on a sustainable basis, our gold loan branches. That's the second part. So -- and if this business is directly related to distribution, and we now know how to do this business well, I would say, the benchmark ROE and ROA metrics are in line with what the best in the industry are delivering.

Then we just want to make sure we grow distribution in a sustainable manner, which we are committed to. So, could it grow at the same rate of the current year? Could be. Could it grow a little slower? Could be. I mean, it's a little volatile right now, that -- I mean, from USD 5,500 to USD 4,500 in one week, it makes it even hard for me to do a budget planning session.

**Moderator:** Our final question today comes from Chintan Joshi with Autonomous.

**Chintan Joshi:** Hi. Thank you for taking my question. Can I come back on the ECL? Perhaps an academic point, but why was LGD different in Stage 1 and Stage 2? I would have thought it would be the PD that would be different and not the LGD. And presumably, that means that like a future credit cycle might look different. If you had the last three years and the next three years, it might -- the trajectory might look different on the credit cost.

And I know you said it jokingly, the 165-175 basis point credit loss guidance, but the analysts have occupational hazard of picking that up. Is that kind of more like a business outlook because things are looking better? Or is there something more tangible that you are seeing in the business?

**Rajeev Jain:**

Yes. I mean I've used the word quite optimistic if you see in my investor deck as well. So, we are quite optimistic. And as I said, we are looking for the last 12 months on 3 MOB, 6 MOB and 9 MOB metrics. That's one part. The second part, which is important for -- you may say what also gives you the confidence on 165 to 175 is also our AF portfolio, which is 1% of the balance sheet, but still 8%- 9% of the credit cost, in the third quarter would be down to INR 1,700 crores of balance sheet by September.

If there's no balance sheet, there's no credit cost. So, it's 1.14% of the -- let me just get my numbers right, 1.14% of the balance sheet and 9% of the credit cost and 14% of the GNPA in absolute numbers. This balance sheet will be done and over with by September. It will be left with INR 1,700 crores. I mean even as we exit March, it will be left with INR 4,200-odd crores.

So that is a natural watch that's happening. In addition, the core businesses, we are tracking 3, 6, 9 MOB gives us quite a high degree of confidence in being able to do. So, environment I don't know about environment. Quite honestly, I am not that much of a macro person. I am a micro person. I think we control who we give unless and until it's an event. Event is different, okay, COVID was an event. Demonitization was an event. Non-event, I would like to believe we control what we choose to do, and that's how we would like to continue to run the firm.

And to your point on LGD, understanding is absolutely right. The LGD that we apply applies across all stages uniformly. So, when I give an example of 80% as a number, that 80% not only applies for Stage 3, it applies to Stage 2 and Stage 1 as well. What moves the provisioning number in Stage 1 and 2 is the probability of default and exposure at the time of default.

These are all calculated using data based on a complicated model that risk team runs for doing development of ECL models. However, the LGD rates whether it is Stage 1, Stage 2 or entry into Stage 3 remains exactly the same across businesses by business lines.

**Chintan Joshi:**

Yes. I might have misunderstood you then before. And perhaps one last one on LRS since we didn't get a chance to question on that. What were the main deltas for you, both positive and negatives as you did your LRS and -- to the last year? On the LRS, what were the main delta, positives or negatives?

**Rajeev Jain:**

Sorry, what is the main Delta effect?

**Chintan Joshi:**

The differences like -- as you compare the two LRS, you went through the exercise, what did you think was more positive? And what did you think was less positive or negative?

**Rajeev Jain:**

So, all LRS in general or any management strategy is on a continuum, okay. It's on a continuum. At a design level, acceleration of AI is on a continuum. If you are 4, you're going to take it to 7, okay. That's one part.

The big thing which will define the company over the next three to five years is the customer-centric strategy that we have principally outlined because that gives us INR 5 lakh to whatever, INR 11 lakh, INR 12 lakh crore balance sheet outlook, point number one, gives us existing customers easy to do business with, whether sell or cross-sell, gives us Opex benefits and gives us credit cost benefit.

So as much as we've been focused on hunting on the continuum and farming, we increased the weight of farming as virtually from -- I would say, we were 60-40 hunting farming. We'll probably go to 40-60 hunting farming in the next three to four years. That's because as you get to 200 million customers, as our data said, India is only 302 million households. And by FY '30, we foresee we'll be doing 100 million loans a year and we would have had 200 million franchise.

That's 20% of active households in India, we would have ever lend to at a point in time by FY '30. And they have a large wallet share. That means you just got to do more with them. That would have been a good 22-23 years of a strategy running, which is 60-40 acquire, cross-sell. It goes to cross-sell and acquire for the next probably 10 years. That's the big fundamental shift is what I would like to make to you. It will all be transient.

It will happen over a period of three to four years because I don't want, as one of the analysts said earlier, saying we have a habit of picking it up. We are not going from hunting to farming. We were hunting and farming. We

are hunting and farming on the continuum. We're just slowly gravitating to more -- to what the needs of the business are and shift the mix, nothing else. So that's what is the takeaway from LRS, yes -- end customer.

**Chintan Joshi:**

There is plenty to unpick there, but we don't have the time.

**Moderator:**

Those are all the questions we have time for today. And so, I'll hand the call back to Mr. Subramanian Iyer for conclusion remarks.

**Subramanian Iyer:**

Thank you, Rajeev. Thank you, Sandeep. Any closing remarks from your side?

**Rajeev Jain:**

No. Thank you. I would just say focus on core operating performance remains strong, and we are quite excited about the medium term is what I would say, just as a closing remark. Thank you. Thank you, Morgan Stanley.

**Moderator:**

Thank you. On behalf of Morgan Stanley, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.