



“Bajaj Finance Limited  
Q4 FY'24 Earnings Conference Call”  
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**MODERATOR:** **MR. ANUJ SINGLA - BANK OF AMERICA SECURITIES**

**Moderator:** Ladies and gentlemen, this call is not for media representatives or Bank of America investment bankers or commercial bankers, including corporate and commercial FX. All such individuals are instructed to disconnect now. A replay will be available for Bank of America investment bankers and commercial bankers, including corporate and commercial FX. The replay is not available to the media.

Good day, and welcome to the Bajaj Finance Limited Q4 FY '24 Earnings Conference Call. This call will be recorded, and the recording will be made public by the company pursuant to its regulatory obligations. Certain personal information, such as your name and organization may be asked during the call. If you do not wish for it to be disclosed, please immediately discontinue this call.

As a reminder, all participant 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 this conference, please signal the operator by pressing star and then zero on your touchtone phone.

I now hand the conference over to Mr. Anuj Singla. Thank you, and over to you, sir.

**Anuj Singla:** Thank you, Nirav. Good evening, everyone. This is Anuj Singla from Bank of America Securities. Thank you very much for joining us for the Bajaj Finance earnings call to discuss quarter four and full year FY '24 earnings. To discuss the earnings, I'm pleased to welcome Mr. Rajeev Jain, Managing Director, Mr. Sandeep Jain, CFO and other senior members of the management team. Thank you very much for giving us the opportunity to host you.

I now invite Rajeev for his opening remarks, post which we will open the floor for Q&A. With that, over to you, Rajeev.

**Rajeev Jain:** I have with me Sandeep Jain who's our CFO, Anup Saha our DMD, Atul Jain who's MD BHFL, and Manish Jain, MD BFSL and a set of my colleagues, Neelesh Sarda, who's Chief Compliance Officer; Fakhari, Chief Risk Officer, etcetera. I'll take you through the investor deck, which has been uploaded on BSE, NSE and the Investor section of our website. Let me jump right on to Panel four. I hope to take 20, 25-odd minutes to take you through important sections, and then I'll hand it over for questions and answers.

In terms of Q4, I'm on Panel four, good quarter on AUM, customer acquisition, portfolio metrics and operating efficiencies. Dampener of the quarter were elevated loan losses in rural B2C and continued impact of regulatory restrictions. Overall, in the quarter, we delivered INR19,647 crores of AUM growth, booked 7.9 million loans, just a tad little of 7.9 million loans and added 3.23 million new customers in Q4.

The app, if you're using it or I would strongly recommend you download and you start to use it, has gone through a major upgrade in Q4, significantly expanding our products, services and a

host of new features on the app and web platform. Bajaj Finserv app now overall has 52.5 million customers, net users at this point in time.

In terms of financials, we ended the year with AUM of INR330,600 crores, a growth of 34%. opex to total income came in at 34%. That is really where it's been for the last three quarters now. PAT came in at INR3,825 crores, a growth of 21%. ROE as a result of capital raise came in at 20.5%. Net NPA came in at 0.37%.

I'm on Panel five, which is the full year summary. Overall, I would say, a good year across all financial and portfolio metrics for the company. Delivered AUM growth of record INR83,236 crores. We disbursed overall 36.2 million loans and added a record 14.5 million new customers in FY '24. Clearly, regulatory action on two of our products was a setback for the year. We remain committed to compliance in form and spirit as a company, and I'll cover as to how we've acted on the embargo, on the KFS just in a short while.

We're rapidly implementing our key LRS mega trends that we outlined in Q3 to investors. Account aggregator, now we have 22% of India's account aggregator on a monthly -- on a run rate basis. We have 8.1 million customers who have given us consents. ONDC, which is on track to go live by June '24. Social commerce is a platform, by July '24. Rewards is a platform, by June '24 and O2O2O to make life significantly easier for consumers by June '24. It would -- all these actions as implemented should significantly strengthen our competitive moat and also improve our cost-to-income ratios.

AUM full year I've talked about, so we had INR330,000 crores. opex to NIM on a full year basis also came in at 34% because last three quarters, that's really where the number has been. PAT has grown by healthy 26% to INR14,451 crores. ROE on a full year basis has come in at 22.1%, and net NPA ending March is at 0.37%. So that's the full year.

I'm on Panel six very quickly. Some of the points I'll just cover, which is point number four on Panel six. New loans booked were lower by approximately 0.8 million as we articulated even in our early press release on account of restrictions laid by RBI on the company on account of eCOM and Insta EMI Card.

Total cross-sell franchise crossed a milestone of 50 million customers and stood at 50.75 million customers. The company added 53 new locations and added 7,700 distribution points. We are now physically present in 4,145 locations and serve over 198,000 active distribution points as of 31st March.

In terms of liquidity, buffer -- liquidity buffer is strong at INR15,700 crores. Cost of funds continue to inch up, albeit slowly now. It grew by 10 basis points on a quarter-on-quarter basis. On a sequential quarter basis, was at 7.86% in the quarter gone by. The deposits book also grew in line with the asset growth, grew by 35% and stood at INR60,151 crores. Net deposit accretion was INR2,143 crores. Deposits on a consolidated balance sheet now contributed to 21% of overall borrowings.

In terms of operating efficiencies, net interest income grew 28%. NIM compression in Q4 over Q3 on a sequential basis was 21 basis points, primarily contributed by AUM composition changes. As we move more and more of our assets or just re-pivot our assets slowly to rightful balance between secured and unsecured, there is some level of compression that's slowly evident in net interest income.

opex to total income came in at 34%. Company is rapidly deploying various Gen AI initiatives across operations, service and contact centres to enhance operating efficiencies. The bigger benefits will not be visible in '24-'25 or -- FY '25, but in FY '26, the exit rates of FY '25 should be much stronger as we sharpen the pencil in terms of inducting Gen AI across our processes as a company.

Employee headcount as a result of optimization of our cost -- operating cost model after 8-odd quarters went down. It stood at 53,782. The employee headcount reduced by 499 people in Q4. Attrition, on a full year basis, we came in at 14.9% versus last year of 18.7%. So continue to see improvement in overall attrition rates for the company.

Credit cost, overall loan losses and provisions were INR1,310 crores. The rural B2C business continued to trouble us even in Q4. AUM growth, and as a result, as I've always said, we are a risk-first company. Rural B2C growth actually came down from 25% on an AUM growth basis to 6% in March '24. So clearly, we still don't have a full handle on rural B2C. And as a result, the growth has been slowed down until such time we can tame risk in the business.

Having said that, I must just qualify that it's 5%, 6% of the balance sheet. Yes, 6% of the balance sheet. So it's a contained risk, and I would say it does not impact the company in any manner on an overall basis.

Loan loss to average AUF came in at 1.86% in Q4. The overall macro-overlay came in at INR300 crores during the quarter, company utilized INR127 crores towards strengthening of ECL model, which is an annual exercise and released INR163 crores towards loan losses and provisions. So it was -- the number was close to INR590 crores, which has come down to INR300 crores. GNPA and NNPA came in at 85 basis points. It's the lowest that we have seen in the history of the company and net NPA came in at 37 basis points. I think even in the industry, it's amongst the lowest GNPA ratios definitely and NNPA as well.

Risk metrics across portfolios are stable, except the rural B2C business, as I said, which continue to trouble us. We continue to remain watchful on risk actions in the rural B2C business. Otherwise, all businesses are from a management assurance standpoint, at this point in time, being marked as green.

I'm on Panel eight, profitability. Consolidated pre-provisioning profit grew 25%, PAT grew 21%, annualized ROA came in at 4.84%, ROE came in at 20.48%, capital adequacy came in at 22.52% and Tier 1 capital was 21.51%.

Three, four additional updates. I thought I'll provide, I'm on point number 26, Panel eight, that the Board of Directors of BHFL, which is wholly owned subsidiary of BFL, at its meeting held yesterday evaluated various options for meeting the mandatory listing conditions pursuant to BHFL classification as an upper layer company, and including a potential IPO. In this regard, Board of BHFL has constituted a committee to undertake various actions and steps. That's really the update that we're going to provide at this point in time. And as and when the committee deems appropriate, we'll provide timely updates to the investors.

In the quarter gone by, company to diversify its borrowing profile, raised \$725 million in external commercial borrowings, which is equivalent to INR6,016 crores, all in 3-year monies. So now 2% of the overall borrowing profile is in ECB. At the peak of it, we used to have 4% of our borrowing in ECB. So based on market conditions, we expect to take it to 4%-odd in the current year itself.

Last point is point number 29 and 30 I want to cover, on Panel nine, that the company has made required changes in response to the regulatory restrictions imposed by RBI on the company on sanction and disbursement of loans under eCOM and Insta EMI Card. The company has formally requested RBI for a review and removal of these restrictions.

To ensure compliance in form and spirit, the company in addition to the two lending products, which are under embargo, has implemented KFS now for all lending products effective 31st March. So any client who takes a loan from the company across retail and SME, effective April 1 gets to receive a comprehensive KFS, and it's in 20 vernacular languages. So that's really the update on BFL consolidated.

BHFL had a good quarter, AUM was up 32%, home loans grew 24%, loan against property 23%, lease rental discounting 57%, and developer finance 69%. Portfolio composition remains steady. BFL is fully meeting its PBC criteria of 60%. The number you see is 58% here, but based on PBC criteria, it's at 61% is what the PBC criteria -- the hurdle rate is 60%. The company is at 61%. Overall, approvals grew 19% to INR19,500 crores. Disbursements grew 26% to INR11,400 crores and the company is now present in 174 locations. Liquidity was steady at INR2,000 crores, borrowing mix remained largely steady with bank borrowings contributing to 51%.

Operating -- in terms of operating efficiencies, net interest income grew 11%. Total income grew 14%. opex to total income came in at 27%. Employee headcount stood at 2,400. The credit costs were virtually negligible, came in at INR35 crores, and BHFL still holds a macro and management overlay of over INR94 crores. GNPA and NNPA are amongst the industry best at 27 basis points and 10 basis points.

In terms of profitability, PAT grew by 26% to INR381 crores, and annualized ROA came in at 2% and ROE of 12.65% on a quarter basis, on a full year basis at 15%. BHFL raised INR2,000 crores from right -- through rights issue from BFL on 3rd of April 2024. It's sufficiently capitalized for '25, '26, for 18 months of growth or so. So that aspect has been taken care of to

ensure that whatever the committee of the -- Board constituted committee decides in terms of its options, they are well capitalized.

Bajaj Financial Securities ended the quarter with INR26 crores profit against INR3 crores profit a year ago. Profit after tax came in at INR22 crores against a profit INR3 crores again. Added 43,000 customers. The company on a full year basis, delivered a pretax profit of INR72 crores, giving us latitude to start to invest in the business to grow the business as we move from here.

Next two panels are full year panels. I'm not going to spend time on that. What I wanted to do is to give you a management assessment for FY '25 because questions get asked, and we'll end up responding. I thought it may just be more prudent for us to systematically give you a management assessment for FY '25. Also, importantly, we've been through two low years and two high years if I take the last four years since COVID. And we're getting into a normal year, the way we see it as management. So I thought it's important we provide you a reasonable update or assessment from FY '25 standpoint.

I'm on Panel 17 for the reference of people who are listening in. As you're aware, we have a well-established long-term guidance across AUM, profit, GNPA, NNPA, ROA and ROE. We expect FY '25, the way we see it at this point in time, to be a year of normalization to pre-COVID metrics. Adjusted for, of course, certain regulatory changes pertaining to NPA classification. So -- and those NPA classifications have had an impact of 12 to 14 basis points. So it's a marginal change but that's changed. When your credit costs are to the extent of 1.7% and they go up to 1.82%, that's a change, which is a 8%, 9% change. That has happened as a result of harmonization of NPA classification between banks and nonbanks, which RBI conducted between '20, '21 and '22.

When I look back over the last four years, what principally I come to conclusion is that the first two years of COVID were a low phase and the last two years of COVID have been -- last two years have been a high phase. From that perspective, we thought we'll just provide you a management assessment. This is all -- of course, is subject to stable macroeconomic and regulatory environment. This assessment, I must just qualify is for FY '25 only, and we remain committed to achieving long-term guidance metrics for the medium term as a company for which we are sufficiently capitalized, have full breadth of products, have large franchise and a very strong moat in terms of business model.

These are seven, eight areas that, in general, that you guys have -- that the investors have questions on, I thought I'll just clarify them. In terms of our management assessment of FY '25 is that we'll continue to originate 12 to 14 million customers in FY '25, we added 14.5 million customers in FY '24. In terms of AUM, we foresee a 26% to 28% balance sheet growth, principally supported by newly launched secured businesses such as loan against property, which went live in Jan '23; a new car financing, which went live in July '24 -- July '23, sorry; and tractor finance, which went live in January '24.

Net interest margin has been moderating because of rising cost of funds and gradual shift in AUM composition towards secured assets. We expect costs to peak in our assessment at this point in time by July, August, and AUM composition re-pivot towards secured assets to stabilize by September '24. Accordingly, we foresee a 30 to 40 basis point moderation in NIM over the next two quarters from our current levels and then stabilize from there. Of course, global interest rates, local interest rates will still have a role to play both ways if -- upwards or downwards. But this is assuming that by second half -- sometime in second half of the year, we have peaked in terms of interest rates. That's really what the assumption is.

In terms of opex to NIM, we expect improvement of 20 to 40 basis points from current levels. And as we continue to focus -- we move from accelerated frame to a more consolidation stage, there could be a little bit of opportunity in opex to total income, even from these levels. In terms of credit costs, as I said, pre-COVID we used to be at 175 to 185 basis points. We expect to remain within that corridor. Last year it was 182 basis points -- for the year gone by, 182 basis points. We expect to remain within the corridor of 175 to 185 basis points.

Return on assets, our long-term guidance between 4.6% to 4.8%. We expect to remain within the long-term guidance of 4.6% to 4.8%. ROE in FY '25 may marginally go down as a result of capital that we've raised. But as you can see, ROE is holding steady, but mainly because of excess capital that we'll be sitting on that we may see some level of -- a little bit of a drag on ROE in the -- in FY '25.

GNPA and NNPA expected to remain range bound and lower than our long-term guidance, long-term guidance has been 1.2% to 1.4%. We ended the year at 85 basis points and 37 basis points. We expect to remain between 85 -- between 85 to 100 basis points of GNPA and NNPA depending on the quarter. On a full year basis, we expect this to be well within the current range.

In terms of profitability, we remain cautiously optimistic about FY '25 with profit growth to be a little more rear-ended due to moderation in NIM in the first half of FY '25. I think that -- I thought I'll just try and answer most of the questions that people have in a clear manner so that we can -- so that's really one of the last panels.

Very quickly, we can just go to asset mix, that's panel number -- the cross-sell franchise continues to grow well. So I'm mindful of time. In terms of asset mix, that's on Panel 55. On a year-on-year basis, there is a 2.2% reduction in unsecured to secured mix. Urban B2C, as you can see, has gone down by 80 basis points and rural B2C as a result of the actions that we've taken has gone down by 140 basis points, leading to 220 basis point reduction in unsecured. One is not by design. The second is by design, which is rural B2C, which I've talked about for the last two, three quarters.

From this time onwards, we also started to separate rural B2C, we used to have gold loans sitting there. We have started to separate gold loan as well. Gold loan is now 1.4% balance sheet, ending last year. It's -- we've also separated from SME lending, the car loan balance sheet. It is now at

2.1% of the balance sheet. So greater granularity in the balance sheet continues to emerge as we grow larger and larger in size.

So 2-wheeler, 3-wheeler grew year-on-year by 80 basis points in terms of mix. Urban sales finance flat, urban B2C down 80 basis points, rural sales finance flat, rural B2C down as a result of actions, gold loan moved up, SME lending 40 basis points down, commercial lending moved 30 basis point, so on and so forth. That's really where the overall asset mix has been. But I would say, marked by greater granularity as we continue to execute on our long-range strategy of to be present in all retail and MSME categories that clients would want us to be.

Just on the last point on GNPA and NNPA, which is panel -- and with that, I'll hand over for Q&A. This is panel 58, range bound, plus, minuses, not much movement here, as you can see, aggregate is where it is. Reasons for up and down are also different. If you have questions, you can raise them, we'll try and answer it as to why it's 40 basis points, 31st March '23 is at 57 because the balance sheet in the preceding -- in 31st March quarter, the urban sales finance balance sheet grew whereas urban sales finance balance sheet in quarter four went down because of the embargo. So it's a numerator-denominator point on urban sales finance and rural sales finance and so on and so forth.

That really brings me -- in terms of portfolio quality, we remain -- on Panel 62 from a management assurance standpoint, we remain pretty comfortable. As I said, everything eventually will go back to pre-COVID adjusted for regulatory actions that happened in terms of GNPA and NNPA. Otherwise, we remain well ahead or still significantly better than where we were pre-COVID. I think that brings me to the end of points that I wanted to cover, happy to take Q&A between me and the management team.

**Moderator:** Thank you very much. The first question is from the line of Shubhranshu Mishra from PhillipCapital. Please go ahead.

**Shubhranshu Mishra:** I've got two or three questions. The first one is, do we have any plans to list in the international market, either through ADR or GDR? Second is with respect to struggling businesses which is -- 1 of gold loan second is broking. When do we see a INR1,000 crores bottom line for each of the businesses? What's the timeline if you can comment to that.

Third is that the B2C business, when we include urban plus rural, that, in my sense, should constitute a larger amount of the profit pool, closer to 35%, 40% basis which we cross-subsidize other products or other businesses. Now given the fact that we have been hitting the credit cost from these businesses, are we facing issues in cross-subsidizing the other businesses?

**Rajeev Jain:** So ADR, GDR, it's a new point. So I had not thought about it, but it's a good input. We'll evaluate and update you guys based on our assessment. We do know broadly that some of the -- some of our -- some of the leading firms in India are listed there. So thank you for your input.



In terms of profit horizon, clearly, we build business with a long-term view. We expect microfinance -- so in terms of size, if you start to think about it and that's why we detailed gold loan this time, we are now from 180 branches to 650 branches, business is growing extremely well. You should continue to see progress there. We are very clear it is anywhere between 18 to 24 months, by the time business becomes breakeven because we're doing business at scale and 36 to 48 before it starts to meet hurdle rate, and anywhere between 40 to 60 before it starts to be a meaningful contributor to profitability. These are the three dimensions that go into our planning process.

So clearly, as you can see, as we've been updating the Street that we launched a whole host of businesses in the last 18 months. Microfinance, tractor, new car financing, LAP. We're just launching commercial vehicle. So clearly, it's a -- we launched open architecture 2-wheeler 2 two years ago. That should start to be -- that should make money in the current year. So clearly, two years to breakeven and businesses are built with a five-to-six-year view. But do we remain very focused on giving time, attention as we become larger to young businesses? The answer is yes. So that's the second point.

In terms of your third point, you're principally saying that are they subsidizing. We run verticalized P&Ls for each one of our line of businesses internally. No business gets any subsidy. They all get capital at the same rate. They all -- so it's a very established, disciplined process and methodology, and there is no cross subsidization. Every business must meet -- any business that we do, it can take three years, but must meet a hurdle rate of 14% to 15% ROE for us to even launch the business. So -- and there is no concept of cross subsidization in the firm because we think that creates mediocrity in the way we run and conduct businesses.

**Shubhranshu Mishra:** My question still remains unanswered, what's the commitment in the INR1,000 crores bottom line from gold business and broking business?

**Sandeep Jain:** Sorry...

**Management:** Gold and broking business.

**Rajeev Jain:** What will be the?

**Shubhranshu Mishra:** When do we hit INR1,000 crores profit in each of these businesses, gold and broking?

**Rajeev Jain:** So I mean -- so gold loan, look, at this point in time, is going well. You're aware it's a cyclical business because it's a commodity, so clearly growing very rapidly at this point in time, okay? If the current run rate was to continue, in three years' time, it could be INR1,000 crores profitability. But again, as I said, we're building this with a long-term view. The model and the template is well set. So -- now that's one.

Coming to BFSL. BFSL had a pretax profit pool of INR72 crores last year, should cross -- should grow significantly, I would say, given their current run rate at this point in time, should get to 3-

digit growth in the current year itself and should compound I would say, 35%, 40% for the near term.

Now -- and then when I say -- then you're talking INR1,000 crores. That's a long way off for Manish Jain to deliver in BFSL. But again, I repeat we are building business with a long-term view. We are quite excited about the business. Do we challenge all our businesses to hit a milestone of INR1,000 crores profitability? The answer is yes. But are we patient enough to know that businesses take time to build? The answer is yes. So gold loan three to four years, longer for BFSL.

**Moderator:** Thank you. The next question is from the line of Viral Shah from IIFL Securities. Please go ahead.

**Viral Shah:** So I had two questions. One is, basically, so first of all, how is the management transition happening with Anup now being elevated and basically how internally it is playing out? Is it as per your expectations? And what are the changed roles and responsibilities now you are wearing. That is point number one.

The second question that I had was also to do with now -- again, we have now numerous instances of RBI placing business restrictions on different entities across the shades of different regulated entities. So I wanted to get a sense of -- at least the common theme we have seen is that on issues that have been more recurrent issue between those regulated entities and RBI, those are the points basis which if they are left unaddressed, that is where RBI is stepping in with this kind of restrictions. So are there apart from this one instance which was there, any other pressing points that have been, say, more of a persistent issue? Any guidance on that front would be really helpful.

**Rajeev Jain:** So management transition, it's very early days as yet. You would appreciate that. We announced the management transition in December. So it's very, very early, is the point I would make. So it's a patience play for us as a management team. And clearly, we would request you all to be patient as well. And the only thing I would say is that it's being done in a highly disciplined, rigorous and a planned manner. And we're all working towards making it a successful transition. So that's the first part.

Second part, clearly, in terms of regulated matters, our preference would be to not comment on it. We are -- we remain committed to compliance in form and spirit. Areas that we are identifying even on our own, we are acting on in addition to annually points being raised by Reserve Bank. So -- and are we all -- given the actions on us, are we committed as a company to ensure that we don't create such a recurrence, at least as management, we are fully committed to. And that's what I can say.

**Moderator:** Thank you. Next question is from the line of Kunal Shah from Citi. Please go ahead.

**Kunal Shah:** So firstly, on credit cost, again. So given that there is a pivot which is happening towards the secured business, and maybe towards relatively a low yielding portfolio as well. But in terms of the credit cost guidance, that still seems to be slightly on a higher side at 1.75% to 1.85%. So -- maybe last time you indicated urban B2C as well, which was in the watch-list, but it doesn't seem to be the case now. So then maybe could it be like are there any other product segments which is becoming a cause of concern, or these are like the normal write-offs which we are seeing in the business, which is leading to this kind of a guidance here?

**Rajeev Jain:** No. First thing you will remember that while we re-pivot towards secured assets, if you look at the transition is 2.5%. So 2.5% of assets went down in terms of unsecured and correspondingly other portfolios went up. So it's a pivot that will happen gradually. It's not doing anything considering the secured businesses are low-risk businesses, unsecured are high-risk businesses, it is a myth. If both done poorly or -- will yield the same negative result. So it's a gradual transition. It is not a quick transition.

But clearly, the road map is to create a more granular portfolio. There's no question of balance. We've been running this mix for many, many years. We have published to the Street that our LRS plan is to compound at 25%, 27%. So it's in that direction. There is -- and all shifts will be gradual in nature. So that's why even the -- while the assets may come, the -- or as the mix moves, it all comes with a lag effect. So that's the only point, Kunal, that you have to keep in mind.

**Sandeep Jain:** If I may add, Rajeev. I think in addition to that, Kunal, if you look at last year performance, right, we delivered 1.63% loan loss to average AUF. And adjusted for macro and management overlay that we released in the last year, the number was 1.82%. If you look at pre-COVID, adjusted for growth, of course, we used to grow reasonably at faster pace at the point in time. On a normalized basis, the loan loss to average AR, pre-COVID was 1.65% to 1.75% kind of corridor.

Rajeev will talk about some of the regulatory changes with respect to definition of NPA that happened last to last year. On top of it, as you would remember, we have made this point in a couple of earnings calls as well. We have significantly accelerated our write-off policies to ensure that we don't carry any residual risk in the balance sheet. That has also led to 10, 12 basis point impact on the overall loan loss to average AR as a metric. If you take both the things together, I think 175 to 185 is a normal corridor in addition to what Rajeev has communicated.

**Rajeev Jain:** And mind you, Kunal, four years later, the balance sheet is INR330,000 crores versus INR140,000 crores, but we ensured that the credit has remained -- in fact, if you knock off the point Sandeep is making, we are lower than where we were versus FY '20. So balance sheet is up 2.8x and credit costs have held flat rather marginally reduced, if you knock off these regulatory changes that came in.

However, on your last point, as mix pivots a little bit, sometime in '26, '27, you will see an impact. It will not even be this year and the next year. I mean '25, '26, you may see some impact,

you will see full impact only in '26, '27 in terms if the -- of the slow or gradual pivot that we are working towards.

**Kunal Shah:** Sure, sure. So on an average, what would be the write-offs maybe if we have to look at it, maybe currently, maybe in this quarter also, it seems to be on the higher side. But what should be the average write-offs given the profile of the assets which we are building? So just wanted to get that because today, in terms of the GNPA as well as net NPA those are like, as you mentioned, historically low levels, yes.

**Sandeep Jain:** So I think if you look at Kunal, by that logic, I think the overall provisioning versus last year to this year is very well disclosed. The differential is nothing but the write-off number. I think barring 10 basis point, which goes towards provisioning balances towards write-off only. Eventually...

**Kunal Shah:** And that might not improve, yes.

**Sandeep Jain:** Yes. Eventually, what you do is you settle the account with the customer by taking a charge off after consuming all the remedial or measure that is available for you to do debt management services.

**Kunal Shah:** Sure. And one last question in terms of the BHFL. So again, if I look at in terms of the NIM trajectory out there, given that that's also like more than 25% of the AUM, it seems like NIMs there itself have contracted and that has led to like almost 21 bps kind of a contraction on a quarter-on-quarter basis. So overall, profitability was also low in BHFL compared to Q3. Year-on-year, it's sustained. But how should we look at the BHFL, both in terms of the margin as well as the ROE profile? Does it improve towards 2.3%, 2.4% or like 2% seems to be...

**Rajeev Jain:** So two points. Clearly, you know that -- if I may use the word in a lighter vein, the madness in terms of competitive activity in the mortgage space. I mean, borrowing costs for BHFL and NCD market is at 8.3% and home loans are being distributed at 8.4% and 8.5%. So we are in that zone that it's a pretty crazy zone. So that's point number one for me to make.

Point number two, clearly, our guidance on a long-range basis, while the company has delivered a 15% ROE in the current year, we believe that anywhere between 13% to 15% ROE on a sustainable basis is really where the business is anchored on. So that's the way you should look at the business. It is that a range bound 13%, 14%, 15% ROE on a sustainable basis, amongst the cleanest, largest businesses in India, which are focused on -- and a great annuity business that we are headed to create is how you should look at the business. Amongst the largest, amongst the lowest risk businesses, 13% to 15% ROE and compounding annually between 25%, 27% to create a great annuity business. Its cost-to-income ratio should keep going down. So making it more and more competitive as it becomes larger in size.

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

**Kuntal Shah:** My question is, I just wanted to correct that there's 70 bps increase in the cost of fund, right, in spite of the ECB cost borrowing up – the ECB as...

**Rajeev Jain:** On a full year basis, Kuntal?

**Kuntal Shah:** Yes.

**Rajeev Jain:** In the full year, yes. If you go to the panel, I think there's a...

**Sandeep Jain:** That's correct, Kuntal, it's 70 basis points over last year. That's correct.

**Kuntal Shah:** And there is a 4% impact on the embargo on the PBT level?

**Sandeep Jain:** That's correct.

**Rajeev Jain:** For the current quarter, yes.

**Kuntal Shah:** Rajeev, the question is, you mentioned in passing about account aggregator, ONDC, rewards and various planning – -- the products you are rolling out. Can you just throw a granular light on how does it impact franchisee, profitability and so on and so forth?

**Rajeev Jain:** I mean account aggregator, we think, is a fundamental shift in the way business will be done. That's really how we are driving the business at this point in time. As I shared, that it's 8.1 million consents. I mean based on the consent of the client to get his -- in a structured manner, his entire bank statement, allowing us to underwrite him right, price him right, expand exposures, portfolio monitoring, early warning, it's a dramatic shift, let me tell you.

And the company has been driving that since November. And that's how, as I mentioned, we have 22% of India's consents at this point in time on a daily or a month-on-month basis. This data is published on the Sahamati website. So clearly, we are very excited. It dramatically opens up, clearly, new growth path for us as a company or for any company that intends to use it because -- so that's one.

Two, ONDC, while it has no commercial outcomes but clearly would dramatically improve engagement rates for our 52 million customer franchise, we're adding 3 million to 4 million customers net installs a quarter. It's -- I mean, Jan '23, 1,000 orders a month were happening. 82 million -- sorry, 8.2 million orders happened in January '24. A year later from 1,000, something went to 8.2 million. That's the kind of growth rate that ONDC is principally experiencing, clearly, customers are ready for it. So that would improve dramatically the engagement rate, our opportunity to engage with the customer. So that's the second part.

Social commerce, clearly, as I've said, people are spending more and more time on videos and photos rather than content. Our app infrastructure, web infrastructure are more organized to content. Social commerce clearly is nascent, but the way we are engaging on a day-to-day basis

are more and more social. So that's going live, it will have reel infrastructure and so on and so forth by June, July.

Rewards is an open architecture customer acquisition engine that is built on back of a PPI platform with a host of benefits. It's a paid program that if a customer wishes to buy, should help us acquire more new-to-Bajaj customers and engage them over time to take all financial services products. So these are big bets, Kuntal, that we are making from a medium-term standpoint, some short term, some medium term and should -- could dramatically alter the way the business looks in the medium term.

**Kuntal Shah:** Are you throwing in the expense management and all the related tools for rewards for enterprises or it just...

**Rajeev Jain:** So expense management as we -- it is there even today in the asset, but we don't find too many -- the utilization rates to be very high. So what happens Kuntal, if you get all the bank statements, then expense manager using account aggregator is relevant. Our intent is to underwrite and lend to a client, making him give five bank statements is -- in my mind, personal assessment, practically not feasible because at store or wherever the client is, one main bank account mostly tells the story. So if you want to deliver a full-fledged expense manager, then you need to get all his bank accounts, which is not practically feasible as...

**Kuntal Shah:** Just my last question. We had a 2% degrowth in EMI franchisee because of the embargo. What is the time frame you are expecting for RBI to revert? And when would you think able to fire that engine?

**Rajeev Jain:** I cannot comment, Kuntal. As I've said, we have completed the compliance, and we are awaiting next steps from RBI.

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

**Umang Shah:** Congratulations to the team on the quarter. Just two questions. One is the FY '25 guidance that we have given on various metrics. I mean, does that factor in the relaxation from the RBI on eCOM and Insta EMI Card? Or you are assuming that it will -- I mean, the guidance is assuming that the situation that we are in today, that kind of continues?

**Rajeev Jain:** Yes. sometime in the near future, we assume.

**Umang Shah:** The relaxation will be lifted, right?

**Rajeev Jain:** Yes.

**Umang Shah:** Okay. And the second question is mainly pertaining to the listing of the housing finance entity and two parts to it. One, the shift that we're seeing between secured and unsecured at this point of time, is it just temporary given that some businesses of ours are under embargo or it is more

structural in nature that BFL stand-alone will start building more secured businesses on its own. And the second part of the question is that the long-range guidance that we have given in the presentation is predominantly consol. Does the listing impact that in any way?

**Rajeev Jain:**

So look, structurally, let's step back for a moment, our market share across lines of businesses remain very low. We have come a long way in 17 years. But when you look at our market share across lines of businesses in personal loan, our market share is 7%, okay? It's been a -- it was at 7% in '19, '20, which is pre-COVID, since then all the action happened, even today, it's at 7%. 7% of all disbursements in India, plus-minus. This is bureau data, is our market share.

So structurally, we are not talking a structural movement. We're just saying that at a design level, there are opportunities in lines of businesses given the growing franchise like auto loans, like LAP because BHFL by design has to principally focus on home loan because 60% of the business has to be home loan. And 15% has to be developer finance. That is 75%. They have built a phenomenal business of CRE that's 10%, 12%. So that leaves only 7%, 8%. So there's very little scope for them to do LAPs. So that's how LAP came in. So we're looking at opportunity rather than changing the mix at a structural level of the business Umang, it's important. I clarify that.

Of course, you have to take into account external environment, you have to take into account various optics to ensure you play year at a time, but no change in structural guidance for us as a company.

**Umang Shah:**

Okay. And the long-range guidance on a consol entity basis, that also kind of...

**Rajeev Jain:**

Yes. So okay. It's a good question. I'm sorry to not have responded. Clearly, some point in time based on the committee's decision. But anyway, the committee's decision is contingent between now and September '25. By September '25, we have to list the firm based on the upper-layer guidance. We are encouraging both that both companies should principally look -- be more Atmanirbhar, look at their rightful mix. BHFL should focus on ROE and BFL should focus on the balance between secured and unsecured.

So from a directional standpoint, as BHFL gets listed, the consol conversation is as important as stand-alone conversation for each one of the entities from a long-term standpoint and which is what we are driving them for. So in a way, one of the -- to the point that you're making, that's why also launching some of the lines of businesses in BFL to make sure that when we start to look at them independently versus consolidated they should be a lot more self-sufficient in terms of all metrics, which are relevant for the business.

**Umang Shah:**

And sorry, just one last follow-up. So does that mean that at some point in future post listing, can Bajaj Finance and Bajaj Housing Finance compete in the same product line?

**Rajeev Jain:**

No. We would never do home loans. BFL would never do home loans. If it ever did, it may do it on an assignment basis for BHFL. LAP, both will do. Market is very large. BFL is very large

in MSME as a business line, it's a core need or a product requirement of MSMEs as we grow our relationship with those clients, LAP is a needed product and I articulated earlier to you. So we may end up competing on and off on a client basis, but not on a structural basis. BFL would never do CRE, BFL would never do developer finance. It's not its business.

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

**Piran Engineer:** Just a couple of questions. One, a follow-up on Umang's question, and you mentioned Atmanirbhar. Just wanted to understand, once the two entities are actually Atmanirbhar how will the customer data sharing work in the sense that one of our propositions was you acquire and cross-sell...

**Rajeev Jain:** Even today, it's on complete arms length basis. Even today, it's on -- complete arms length basis. We originate on their behalf; we would get paid a fee for it because we are mining our franchise.

**Piran Engineer:** Okay. And is it fair to say bulk of their customers are your customers? Or do we have a large share of independent...

**Rajeev Jain:** 35%-odd...

**Atul Jain:** The answer is, so end of the day, eventually 35% of our customers turn out be BFL customers, but some of them on account of just BFL customer franchise being that large, not account of being originated from the leads, which come through BFL franchise. But yes, end of the day 35% of the customer base would be common between BFL-BHFL or BHFL customer being a BFL customer as well.

**Piran Engineer:** Got it. So you're independently sourcing 65% of your customers?

**Atul Jain:** So our digital mobilization on BHFL website and BHFL assets is completely independent or through the web SEO activities, what we do on our own, where we get the customer. Along with that, BFL does mobilization of its customer base through digital channels and its app and web platforms, any customer which consents to take a loan, which is a mortgage loan, which is being serviced by Bajaj Housing Finance, the consented lead comes to BHFL and the revenue sharing happens on that, a lead conversion happens in the BHFL side, but there is a -- on the lead sharing basis arms-length basis, the revenue sharing happens, yes.

**Piran Engineer:** Understood. Okay. Fair enough. Secondly, I just wanted a few clarifications. Firstly, when I calculate your ROA, just a simple calculated number is around 4.5%, for the full year you all have reported 5% or 5.1%. So do you all calculate it on a denominator of loans or something like that?

**Sandeep Jain:** Yes, we calculate it on loans only.

**Rajeev Jain:** Always.



- Sandeep Jain:** Unlike bank where investment constitute a significant portion of the balance sheet as part of the deposit gathering process, for us, the interest-earning asset is only lending that we do.
- Piran Engineer:** Okay. Okay. So simply put your expecting a 30, 40 bps decline in return on loans next year?
- Sandeep Jain:** That's correct. On a portfolio basis, the answer is yes.
- Piran Engineer:** Okay. Fair enough. And just secondly, I know this has been discussed before, but...
- Rajeev Jain:** On a year-on-year basis, Piran.
- Piran Engineer:** Yes, year-on-year, yes. And why exactly are credit costs going to be elevated in FY '25 also given that we've curtailed our disbursements in rural so much, even in urban to an extent, just wanted to get a sense of that.
- Rajeev Jain:** Sorry. Piran, sorry. Could you just repeat your question? I lost you in between.
- Piran Engineer:** Why are our credit costs going to be 1.8%, 1.85% next year also, given the initiatives that we've taken this year in terms of curtailment and improving our underwriting?
- Rajeev Jain:** So it's a fair question. Some of the portfolios have seen, continue to see ever low. I'll give an example that the 2-wheeler and 3-wheeler business has just started to come in terms of pre-COVID normalization only since December.
- So clearly, we expect rural B2C will normalize, but we are seeing that there are still -- actually, that's the only portfolio left, which is yet to come back to pre-COVID levels. So that's really what we are taking into account as we assess how FY '25 would look like. So that's the only residual portfolio that principally as yet is not back to pre-COVID levels.
- Piran Engineer:** Understood. And just lastly, we had increased our lending yields by 25, 30 bps last quarter in fourth quarter. But yet we are talking about a 30, 40 bps margin compression. So the cost of funds impact is so severe, is it? And can we not increase yields more?
- Rajeev Jain:** Yes. No, no, we had increased, but the net flow-through that we're seeing based on intense competitive activity is only 12, 14 basis points. I mean, clearly as I said earlier, in terms of home loan rates, home loan rates are still at 8.4%, 8.5%. I mean a little -- I mean, as Atul is saying, it's 8.5% to 8.6%, but our borrowing rate is at 8.3%.
- So clearly, the intensity of competition continues to be really strong. So net flow-through has been 12, 13, 14 basis points, depending on the month that you're talking about. And cost of funds have inched up by 10 basis points in the quarter that went by.
- Sandeep Jain:** For the sake of repetition, let me repeat what Rajeev commented at the beginning of the call. I think one, we see some movement in cost of fund, and we forecast a peaking probably by August. At the same time, there is a pivot towards secured asset mix in the balance sheet that also will

have some impact on NIM. I think these are the two important points that I thought I should reiterate.

**Moderator:** Thank you. The next question is from the line of Dhaval from DSP Mutual Fund. Please go ahead.

**Dhaval:** Just had a couple of questions. First is on just trying to reconcile the expectation for next year from an earnings perspective. So we roughly expect about 7%, 8% kind of ROA decline from 5.1% going to, let's say, midpoint of the guidance about 4.7% that's translate about 7%, 8% kind of decline on profitability.

At the same time, if you think about asset growth, that's going to be about 26% to 28% based on our expectation. If you take the midpoint, net-net, we are looking at 20% profit growth for next year versus our medium-term aspiration of 23% to 24%. So the question is, should we expect some bit of catch-up into FY '26 based on your rate expectation and your expectation of RBI embargo being lifted, will there be some normalization of profitability in FY '26 to get back to our medium-term expectation of 23% to 24%. So that's the first question?

**Sandeep Jain:** Yes. So Dhaval, I think your assessment is correct to a large extent. 26% to 28% is where we see the growth in the next year to be. That's one point. Second, as Rajeev articulated, 30 to 40 basis point movement in NIM could happen in the next year. We expect the loan losses to be range bound. It does give you an indication about where the profitability could be. So I'm not commenting on a specific number, but probably -- that's probably an indication that you are highlighting.

Going to FY '26, as Rajeev was highlighting that in the last four years, we had two years of low and two years of high. It is against the high year that we're comparing Y-o-Y growth. As we get into FY '26, assuming the macro continues to remain healthy, regulatory environments remain conducive. I think your point, again, remains valid. We should go back to our medium-term guidance of 23%, 24% kind of profit growth.

**Rajeev Jain:** Can you hear us? Hello?

**Moderator:** Sir, the line for the participant dropped. The next question is from the line of Avinash Singh from Emkay Global. Please go ahead.

**Avinash Singh:** A few questions. The first one, the way you were highlighting the challenge in the rural B2C. And if you look at some of your new segments, maybe gold, of course, you separated, MFI and up to certain use making, they are kind of a bit -- or a similar in nature to the rural B2C. In this backdrop, on one hand, you are going slow on rural B2C. So how do you see these segments to sort of come over the next couple of years? So that's question one.

And second would be more into -- do with BHFL. Of course, coming from a smaller base, you are ramping up very fast also on the LRD and developer finance. Now developer finance is a bit, I think, reasonably cyclical business and the cycle turns quite fast. Right now, of course, I mean,

real estate cycle looks quite good. So what sort of -- any sort of growth plan you have, particularly for this developer financing side and as well as what kind of early-warning system you would have in place to...

**Rajeev Jain:**

Those are two different questions, and Sandeep can answer the first one. In terms of the mix. Look, structurally, and I want to reiterate that the mix will shift gradually, number one. Two, our market share across lines of businesses remain small. This tremendous opportunity at every line of business we have grown even the consumer durable business, our market share has grown on a year-on-year basis. I mean, where we are in high wherein -- I mean, if I take the bureau data, we have a 51%, 52% market share of consumer durable loans being booked. We've gained share.

So as I said, personal loan, we are only 7%. Rural B2C is a transient conversation. We are waiting for GFRs or gross flow rates, which are early indicators of the health of the business to go back to pre-COVID levels. As it goes back, we'll be back to growth because the franchise on a year-on-year basis, if rural B2B is growing by 34%, the least that should happen is rural B2C should grow 34% on a very simplistic basis, whereas rural B2C grew only 6%.

So there is a significant amount of dry powder that is available with us for us to be able to accelerate. But we don't want -- we never accelerate a business if we are not in control of the risk metrics.

We are seeing GFR rates go down. Over the last two quarters, I think it will be one more quarter. And by second quarter as it goes back to pre-COVID levels, we should be back to growth. So that's the first part of the conversation. I want to make sure there is no confusion that are we changing direction in terms of our mix. We are changing direction in terms of mix, but in a very gradual manner. I want to reinforce and reiterate that point.

Point number two, I'll let Atul respond to the developer finance. I'll make only one point that it's a business that we've ran for the last seven, eight years with an eye on risk rather than eye on profit. Rest I'll let Atul respond.

**Atul Jain:**

So if you look at the developer finance book while it is looking like in AUM growth, it is grown exceptionally well in the last one year. But at the absolute size of the balance sheet still remains sub-INR9,000 crores, which is a very minuscule portion of the -- again, the market size, what it is there because we had been building a granular book over the year, when you look at an average ticket size and an average outstanding because this book represents close to 440 relationship and close to active 600 projects. So it's very granular in nature.

It is being done for two parts. One, of course, as a return enhancer for a mortgage business because as we -- as you are all aware, we're in the prime home loan market where we -- as BHFL, we are more operative, the margins are razor-thin because of intense competitive activity. Developer finance is required in a calibrated manner to deliver a return enhancement and also

to ensure that we build our home loan presence at the developer counter because that is a core home loan business. So it is not only a return enhancer, but it is core to the company's strategy.

In the medium term, we had guided that the business will remain in range bound, not exceeding 12% to 15% of the balance sheet mix. And as we go forward, that is how we like to look at the business. We continue to grow in a granular manner, continue to use it as a bit of a return enhancer and also more important as a strategic block to get us heft in the home loan business.

**Avinash Singh:** And in the LRD, I mean, how we see competitive environment? I mean, because LRD, even banks are reasonably...

**Atul Jain:** LRD, we have -- I'll say that that's one business we have done exceptionally well besides developer finance. We've built a name, in terms of our size is quite relevant. We compete with the banks. We compete with the banks for the marquee customers. Our customers are the real marquee along with all sponsorship, funds and the REITs, which we cater to. We are intensely competitive in that segment. That is because the opex ratios are very small there. The returns are in line with what -- mortgage return happen.

And we will continue to be aggressive in LRD space to deliver the third part of the mix from a home loan plus developer finance, which is our regulated business because it is -- as a housing finance company, we have to maintain a 60% home loan asset base. The remaining part will be focused much more on LRD to have the 100% mix.

**Sandeep Jain:** Just to add one more point on the B2C piece, I think just to reiterate what we've always communicated. I think we run a diversified financial services business, and the power of the diversified model is that it allows you to take rightful call when you see a particular business not doing well to your expectations.

In that context, we believe at this point in time, we are better off keeping our rural B2C at a little bit of a slower pace. Once we see portfolio mix to start -- portfolio quality to start to show improvement, we're more than happy to bring that growth in the business. I think that's just the point of -- reiteration that I want to make.

**Moderator:** Thank you very much. Ladies and gentlemen, we will take that as the last question. I will now hand the conference over to Anuj Singla for closing comments.

**Anuj Singla:** Rajeev sir, any closing comments before we conclude?

**Rajeev Jain:** No. Thank you all. Thank you all. We look forward to your continued support in FY '25 as we play along and build the business for the long term. Thank you. Thank you so much. Good night.

**Moderator:** Thank you very much. We conclude this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.