"Bajaj Finance Q4 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Bajaj Finance Q4 FY2021 Earnings Conference Call hosted by JM Financial Institutional Securities Limited. 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 the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bunny Babjee from JM Financial. Thank you, and over to you, madam.

Bunny Babjee: Thank you. Good evening, everybody, and welcome to Bajaj Finance's Earnings Call to Discuss the Fourth Quarter FY2021 Results. To discuss the same, we have on the call Mr. Rajeev Jain, Managing Director; Mr. Sandeep Jain, Chief Financial Officer; Mr. Atul Jain, Chief Executive Officer, Bajaj Housing Finance; Mr. Anup Saha, Deputy Chief Executive Officer, Bajaj Finance; and Mr. Deepak Bagati, President, Collections and Mr. Fakhri Sarjan, Chief Risk Officer. May I request the MD Mr. Rajeev Jain to take us through the Financial Highlights, post which we can open the floor for Q&A session. Over to you, Sir.

Rajeev Jain: Good evening and good morning to some of you who are in another hemisphere. We have uploaded the press release I think we are waiting for BSE and NSE to upload the investor deck and that is why we have not uploaded in our section of our website. It has been done so now I am told so you can refer to that, but I will run through a few slides quickly to give you a texture on the quarter that went by.

Now overall if I look at the assessment of the quarter I would say given the circumstances a good quarter for the company. I am in panel #4, with most lead financial indicators fundamentally normalizing to pre-COVID levels. Our business transformation plan that we have been sharing over the last three quarters is on track we expect to launch the overall premium financial services infrastructure in a phased manner between August to September as a company.

If you look at the quick financial highlights, on a year-on-year basis we ended March 31st with AUM of just a tad below 1,53,000 Crores a growth of 4%, Opex to NIM versus 31% last year came in at 34.5% and I will cover that in with some texture in a moment. PAT came in at 1,347 Crores it is a growth of 42%, but the year-on-year comparisons are not really relevant fully, and that will remain so the case for the next four quarters as we go from here so we will have to live with some degree of I would say with these numbers at least for the next three, four quarters. ROE came in at 3.7% versus not annualized which is versus 2.7%, net NPA came in at 75 basis points versus 65 basis points as of March 31st.

Let us quickly run through the key numbers. Overall AUM as I said, I am in panel #5, 1,53,000 Crores a year-on-year growth of 4%, core AUM growth was 9,400 Crores versus a year ago 2,061 Crores. If you look at the AUM growth between Q1, Q2, Q3 of FY2020 on an average the AUM growth on a quarterly basis was 9,700 odd Crores so we are within the 95%, 97% run rate of quarterly AUM growth in Q4, we were at 8,500 Crores core AUM growth in Q3 and that has moved to 9,400 Crores.

In terms of accounts booked, the company booked 5.5 million accounts, versus 6 million accounts a year ago we have updated the investors in general about two businesses that we have put either in a pause mode or have constrained their lending. Mainly our wallet loans business which used to be 1,75,000, 2,00,000 accounts that business kept in bay, and our retail EMI card spends business that is capped at this point in time at 50,000 accounts per month versus 1,50,000 accounts that they use to do pre-COVID. Adjusted for this we on an apple-to-apple basis we are at just about 6 million accounts on a quarterly basis. New customer acquisition run rate has come back to pre-COVID levels at 2.26 million the new customers we acquired in Q4, in general our long-term guidance in general is between 7 to 8 million customers in a year in the last two quarters we fundamentally hit a 4 million kind of number so we are well in track to normalizing new customer acquisition in the last two quarters to pre-COVID levels. Overall franchise was 48.6 million the cross sell franchise was 27 million overall on a year-on-year basis a growth of 27 million gives us a reasonably good platform to grow from once we are out of the second wave as a country. Our total geographic footprint just a tad below 3,000 locations and 1,10,000 distribution points. In terms of margin profile we are holding margin profile except mortgages. In the Q4 that went by we took an interest reversal of 300 Crores as compared to 122 Crores that we were taking in Q4 last year. The interest reversal peaked in Q3 that was 450 Crores that has already come down to 300 Crores, we think it should fully normalize by Q3 back to 120 to 140 Crores range. Overall cost of funds we had shared that as we start to bring down our liquidity buffer, as we start to have greater confidence on growth we would start to also improve our borrowing, which should fundamentally lead to reduce cost of fund given where the environment is. The overall cost of funds came in at 7.4% or 7.39% versus 8.37% a year ago that is a close to 100 basis points differential. The liquidity buffer still held quite high, we expect to bring this down to about 9,000 to 10,000 Crores in the current quarter as things normalize. As part of the process to bring down our cost of funds we have shared even in Q3 we have now paid down close to 7,500 Crores to banking system to various banks as part of our strategy to optimize. The deposits book with the intent to continue to granualarize our liability balance sheet grew 20% it has now crossed 25,000 Crores just a tad below 26,000 Crores at 25,803 Crores. Overall corporate and retail in that retail is 77% corporate is 23%.

Opex as I said earlier, I would cover in a little bit of detail. It came in at 34% versus last year at 31%. In absolute terms Opex is higher by 153 Crores recovery commission in that line was higher by 140 Crores and employee related cost were higher by 151 Crores. Opex so part of it was mitigated by prudent management of other expenses so while the number was higher by 300 Crores the net number was higher only by 153 odd Crores. If you look at the ratio which is Opex to NIM ratio fundamentally came in at 34.5 versus 31 in general as we are looking at the management of Opex we are also clear that as the AUM starts to grow over the next two, three quarters and operating leverage starts to kick in max and we expect collections cost to fully normalize by Q3 you should start to see Opex to NIM go back to pre-COVID levels and hopefully by Q4 of the year as we deliver business transformation fully should start to look lower.

Let us come to loan losses and provisions we had guided that we would take between 1,200 to 1,250 Crores despite the fact that overall bounce collection efficiencies even as we were speaking in January we are looking better as a prudent measure we decided to continue to take provisions we took provisions of 1,231 Crores we also did accelerated write-off to the tune of about 1,530 Crores on account of COVID related stress and have fundamentally on a go forward basis advanced our write-off policy so this is really how you will see the numbers play out as you move from here. Overall last year we as a result of COVID we entered FY2021 with a 900 odd Crores of COVID overlay we are again entering in a way second wave with 840 odd Crores of management overlay and macro provision that gives us confidence that we can navigate through this crisis if it becomes one in an efficient yet effective manner. Gross NPA, net NPA we think represents the health of the business came in at a 179 basis points and 75 basis points versus 161 and 165 basis points. The absolute net NPA was up only 200 Crores from where it was in March 31st 2020 at 1,136 Crores even in that the AF, our auto finance portfolio and mortgages largely have seen an increase of 300 odd Crores as you can see that probably the numbers here from 419 to 609 that is 480 odd Crores and another 120 odd Crores. The non-overdue which is portfolio which is current but classified as one-time restructuring stood at 739 Crores it includes 918 Crores of secured exposures essentially again auto finance and mortgages one large B2B retailer account of a strategic partnership that we have of 397 Crores and 424 Crores of unsecured asset we have essentially considered the OTR book as indicated a significant increase in credit risk and as a matter of fact classified it at stage II asset. Against these assets we are holding a provision of 328 Crores which is a 20% provision. The non OTR stage II assets stood at ~5,000 Crores against 3,150 Crores. We hold a ECL provision of 1,240 Crores which is 25% against 589 Crores which was 19% that we held on against 3,000 Crores of assets as of March 31st. Of the stage II book secured assets are 3,000 Crores and unsecured assets are 2,000 Crores.

Bounce rates if I look at new origination over the last six months fundamentally is 107 clearly across business we are in line or better than pre-COVID origination are to be in general the current budget bounce rates which is good customer slipping in to default is that to pre-COVID levels now, the current budget collection efficiencies are significantly better than prior to pre-COVID levels. The overall collection efficiencies across current bucket, bucket I, bucket II, which is 30 DPD, 60 DPD even write-off recovery continues to be significantly better than the experience that you have had for a long I mean we have not experienced these kind of collection efficiencies across our portfolios in the last 14 years since at least I am running the company here. Now overall gives us the confidence that we are well positioned to navigate any temporary stresses on account of second COVID wave that may emerge.

PAT we talked is at 1,347 Crores versus 948 Crores. The board of directors given that we have accreted capital in the current year have recommended a dividend of Rs.10 per share which is 500% and which is the same as last year. Capital adequacy remained very strong at 28.5%, 28.34% and Tier I in that was 25.1%. BHFL, the mortgage arm of the company, the AUM grew by 19% to just a tad below 39,000 Crores its capital adequacy is again strong at 21.5% and its PAT for the quarter was 179 Crores versus 91 Crores, a growth of 97%.

Overall it is our view as a management at this point in time that the company is entering FY2022 or has entered FY2022 on a reasonably strong footing baring a I would say nationwide lockdown or extended lockdown the large GDP contributing states or a national lockdown leading to a moratorium, I think barring these three event we are reasonably confident of delivering a long-term guidance metrics in FY2022. Given that we are in a moment where I am in panel #8 we are in a moment where in general people are also asking us to what is the feel on the ground. I will just give you some texture to where we think we stand and how some of our high frequency businesses from a origination standpoint are doing at this point in time we are virtually headed into end of April and the disruption in general across the country started in the last 10, 12 days there are 7, 8 points let me just quickly cover that. As I said barring a national lockdown, three to four large GDP contributing state going into simultaneous lockdown for three to five weeks and another moratorium on loan repayment in barring these three big events we are reasonably confident of delivering the long-term guidance in FY2022. We are also wiser I think having experience of first wave we believe that a disruption in the first quarter could be reasonably mitigated in the balance three quarters I think none of us expected how quickly the economy will bounce back in September quarter and the January quarter gives us confidence that even if it is a disruption in between April and May a month is lost let us say for a moment hypothetically it can definitely be made up in the balance ten months of the year. Having said that we are in a rapidly developing situation we are watching the situation closely and are taking appropriate actions to navigate through this. So that is why we are confident about it but we do not want to be over confident about it and we are watching the situation very, very closely.

One of the things that we are also clear about from the last even till that we will remain fully open for business as a company in whichever way we can despite the significant disruptions that one has seen in few states in the last 10-12 days we remained open in line with local administration advisory. If you take the last 7, 10 days in general we continued originating even from the larger states being even at 15%, 16% of the GDP, 15% of the GDP comes from Maharashtra, Delhi is a very large market and so on and so forth we are still originating 50%, 55% of daily volumes in our B2B business given a deep distribution and wide spread geographic footprint that we have 80% to 85% of our business in B2C and SME businesses and 40% to 50% of business in mortgages is really have last 7- 8 days have fundamentally panned out. The reason for the confidence is also because I think in the last one year last time around we did not have opportunity none of us got any time I think in the last one is significantly augmented digital capability to remain fully functional whether it is a new origination for full fledge service, full fledge operations or collections in a work from home situation. I think there is significant preparedness and readiness to navigate through this a year later into the pandemic we are also clear that we have 25% to 30% we are aware we added 1,800 odd capacity in terms of staffing and in our collection infrastructure we were running a 25% to 30% extra collection infrastructure at this point in time as a company.

I am just down to last two points and then I will hand it over for questions any which ways we are well on track to launch our three months financial services in a phased manner between August and September we also believe that is the recovery in general is a back ended recovery given the COVID second wave I think it will help us accelerate our market share as the economic momentum accelerates is really what our point of view at this point in time. There has been no due days and so far in the last 15 days the risk in collections it has not warranting any kind of risk time change at this point in time however we will continue to remain data dependent as a company and we will make this season it has may opens up and so on and so forth. I think as I said we are lot more prepared I think the business continuity for micro containment which we increasingly called play book is lot more prepared.

Lastly but an important point I think while we all were worried about the health of the franchise, this time we are really worried about the health of our employees and given the high trans mobility we feel as it seems and are closely monitoring the situation. We had a reasonably generous financial year program last year, the company spent 37 odd Crores on that. And now we have reinitiated that program we also decided to initiate work to vaccinate all our employees and our associates as quickly as we can and the company bare the cost of it.

That is the preliminary assessment. Let me just give you update on business transformation which is really what we are most excited about. The premium financial services for our customers let us say by the time we launch this with the 51-52 million customers that we are launching as a omni channel frame for our franchise we have launched as an update on our Experia App. I think by the time we launch we will have 10 million customers on it already. At this point in time we have 7.5 million Experia users so it will cut short or shorten the onboarding process significantly parallely as we do this the productivity apps - our sales app ecosystem, our merchant app ecosystem, collections app and partner app ecosystem will go live between May and September in a phase manner again between May and September. The Bajaj Pay for consumers which is our payment infrastructure with BBPS services gone live. UPI in CUG has gone live and we are just waiting for regulatory clearance for PPI is ready to go live we are just waiting for approval for the PPI business to go live. The three marketplace we have which is our e-store, insurance and investment market place are in advance stages of development at this point in time. The first phase of e-store has gone live in February, we are now 25,000 SKUs on it for consumer electronics business, 40,000 retailers have been onboarded and the final capabilities of e-store will go live between July and August 2021. The insurance and investments marketplace will go live between July and August as well. The onboarding app of Bajaj Financial Security has gone live and the trading app will go live on 31st of May. 12 adjunct partner app are live and overall, 28 apps will go live as the premium financial services goes live. Quickly on customer experience I had outlined that we are clear that if we have to be a moment of truth company we will need significant transformation in customer engagement and experience, we think engagement comes from service so there it is just to give you texture 33% of the overall app ecosystem is dedicated to service just at a frame level so clearly we think it will lead to what is really the core reason why customers will engage more and will do more business review you see a set of points here on panel 7, on panel 11. The Exodel infrastructure is working quite well 15%, 16% of the case happening through that we are deploying an AI solution to analyze the cost along with the bag of words the open collection service debt across 10 branches we are adding seven more so we got 17. We are on a proactive basis we are investing an DRA certifications to 7,000 of our agents have already got trained we will cover that in full year. The NPA for collections probably we are the only exception anywhere in this quarter is 97% of our customers are giving us four and five scores. So that is a quick update.

Let me just jump in the interest of time all the way down to how are we seeing the portfolio health on panel #50 and then I will leave some time for questions.

This is panel #49 which fundamentally represents I have talked about it that fundamentally 1,41,000 Crores of assets are in stage I, OTS assets at 1,739 Crores stage II is 5,000 and stage III is 2,731 versus last year as I have articulated 3,100 Crores is normal stage II versus that is 5 and 2,400 Crores last year was Stage III it is 2,731 and we had a coverage of 60 we had a coverage of 59 in stage III, 58 in stage III and we had a coverage of 19 we had a coverage of 25%.

In general I am down to panel #50, 51, 52, represents 13 of our different businesses we have a red year which is still our two-wheeler and three-wheeler financing business which is still significantly behind where it was a year ago in terms of stage I assets other businesses have all caught up or are better off. B2C loans is still behind by 108 odd basis points and as a result stage II there is higher by 120 odd basis points otherwise rest of the businesses are back to where they were in February 2020. It is not March 2020, it is February 2020 as that is a reference point that that we have used for the last four quarters and we continue to use. So that is really the quarter gone by and myself and my colleagues here, are ready to take any questions that you may have.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rakhi Prasad from Alder Capital. Please go ahead.

Rakhi Prasad: I wanted to get a sense of your credit underwriting in terms of automated credit underwriting what kind of products are you doing through automated digital network and any sense on what would probably you are talking percentage of AUM and how has that trended over the last years.

Rajeev Jain: So fundamentally our B2B which is the point of sale business is the one which is quote unquote t the fully automated underwriting our B2C business is our Quasi automated because we fundamentally determine based on our analytics whom you want to give money to but to only 10% with customers we are able to do we are willing to do straight through balance 90% go through a Quasi underwriting process everything else would be fully underwritten and if you look at the portfolio and a sense that B2B businesses which essentially contribute to, if you go to panel #43 we will see the composition there so the 8% of the business and to 10% of the business is fully automated the consumer B2C and provider B2C which is another 28% of the business is quasi automated rest is fully underwritten.

Moderator: We move to the next question from the line of Aditya Jain from Citi Group. Please go ahead.

Aditya Jain: Sir I want to just understand the QoQ movement in restructured assets and stage II loans, so in the last quarter if my understanding is right we had 2,000 Crores restructured in stage I and GST was about 5,900 Crores and in 4Q that to collectively OTR plus GST is 6,700 is that right and then if it is then the decline has come from where say to types of movement to GST or concrete.

Rajeev Jain: Aditya there are three questions that you are asking one is on the OTR book. The OTR that we had offered to the customers was approximately 2,200 Crores of which some 400 Crores customers have already been classified as stage II in the normal process because of the overdue position as on 31st March, the balance 1,739 Crores that you see are the customers who have taken OTR from us but are wondering they are promise as per the revised repayment terms. Had it available for OTR these customers would have got classified as stage I only that is point number one, point number two the balance that you see in stage II that has gone down the point is correct it has gone down for 5,900 Crores in the last year to 4,985 Crores as of now this is on account of two things one the recovery that have taken place in quarter in the stage II as well as the customers moving into stage III most amount of write-offs that we have done in the current quarter and in the previous quarter as well are basically from the stage III asset and not from stage II asset so stage II is mainly on account of recovery and some migration to stage II that has taken place in the current quarter.

Aditya Jain: And one question on the digital transformation side. So if you could just help us understand in terms of size how many point of sale terminals will you put what will be in terms of change in business model of say you have a ex amount of people had therefore present today how could that change. So if I will talk what that cost movement essentially will be because of all these initiatives.

Rajeev Jain: So fundamentally look it is a fair question you have to while we share with you that these are different apps we see them as a single ecosystem to let me make that point because fundamentally we are very clear we are on a highly regulated business click and get money we will have that for 10% of the clients 90% we will need assets things and that is really how you fundamentally see phase I app as integral phase I app, merchant I app are integral to what we call the omni channel infrastructure is integral to the overall design it is important for and that is why we are saying an omni channel framework where customer will be able to transition in a frictionless manner between offline and online and vice versa so I think that is something for you to remember now let us just take an example for a moment so that it becomes clear point to sale you would have an e-store you are on e-store at home you look for a retailer in your vicinity you identified product you do not buy it you go to let us say add to cart and you left it we realize that appliance is a high involvement category we will fundamentally flow that lead to the store that you have chosen and the person either to the retailer based on our arrangement or to the point of fair person that we have who based on a point when do they speak to you and assess to you and help you probably at the store and do the transaction that is the one example of omni channel the other example of omni channel we may pre-approve you. You have downloaded the premium financial services you do add to cart but are not able to go ahead because you need some assistance and we need something from you that leads based on a allocation methodology will flow to a particular person in the field who would assess you and help you go through the transaction. We are very clear that on the other hand it may be an insurance product or an investment product that you maybe want to buy in three clicks it maybe a broking account that you will be able to if you are a KRA customer. As KRA customer you will be able to open in three clicks so it will defer product-by-product and nature of the product and the nature of the transaction so the ride when you look at it would be as it emerges between August and September as the experience there is a customer that is really where the imagination would become more clearer so we are all excited about launching this something we have to foresee.

Company Speaker: Yes, also it I have to said that this is a O2O framework which is the online to offline and offline to online we are not taking a position that it is only online it is a assisted O2O framework where the customer decides we can go all the way to disburse if customer needs assistance we can call fairly quickly I think the game here is how fast do I reach out and that is where the moment of truth will really play out.

Aditya Jain: Got it thank you that is helpful and last clarification so how will all of this relate with the sense of market app which is completely disconnected or…

Rajeev Jain: Since the market has this completely disconnected but the company is helping us build the technology platform because we are in the middle of building premium financial services we are in the midst of significant transformation of our current core technology platform so they are building the investment and insurance and e-store market place for us on an arm length basis as a technology partner.

Aditya Jain: Got it thank you very much.

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

Kuntal Shah: We lost you for some time in-between at least I think. This might be a repeated question I would just focus on the slide #10 giving the transformation thing particularly two aspects that did your comments on what would be the switching cost for the customers in the current existing other platforms to pertaining to investment, insurance, e-stores and the stickiness for you as on to justify the current acquisition cost and your comment on the

Fintechs which are acquiring customers spending treasury versus your cost of acquisition. Secondly more comment on how is this arm length pricing is going to work between the parent company and this because ultimately the platform owner was the customer not the service provider so some clarity on who is owning the customers and how it is flow through between the two respective things.

Rajeev Jain: So first of Kuntal as we can see on top on panel #10 we are not building as a new customer acquisition at a design level as I said in two panels before we continue to originate customers at point of sale that does not mean that this will not originate new customers avail we see EMI card origination has now become a reasonably large standalone engine digital engine for us we are now originating anywhere between 60,000 to 40,000, 45,000 paid customers and 60,000 to 70,000 approved customers on a month-on-month basis we think as this ecosystem will become large it is very much possible that number will significantly expand but leave that aside our focus is on originated the point of sale and acquire and cross sell is really been our strategy and that is really what this panel and platform is intended to serve. We have enough customers we are very clear that we will be a sometime in the near future we will be 100 million customers company given the distribution and the product portfolio that we bring to the table and the geographic presence that we bring to the table so that is one part, omni channel frame originated point of sale do more with them is really what the platform saw. Now that is one part of question that you ask me, trust they are a technology partner for us Bajaj Finserv markets were the technology partner on an arms length basis they are paid to build the technology the way we work with various companies whether it is I mean I do not want to give names but we are various technology partners Bajaj Finserv market is another important strategic good technology partner that is really how we are doing it on a complete arms length basis customer as I said belongs to us any customer who come on this platform takes our products belongs to us so there is no confusion at all. Having said that since there was a earlier question and there is this question we created Bajaj Finserv market as a challenger in the group that was our original objective and that objective stay they are a challenger we are quote unquote producers if I may say so between us Bajaj Allianz Life Insurance Company, Bajaj Allianz General Insurance Company, we are producer among them we happen to somebody who is a producer and is a open architecture large distributor as well so I understand the confusion that a time it can we created them as a challenger to make sure that this space is very large it is a growing space that can be created distinct and a differentiate model to find a new way to originate customers and that is really what they have been up to for the last three and a half years and there we have our own journey we have our own customers. So there is no confusion in our mind this has happened to be you have to look at them as you guys understand it easily as Amazon and AWS that is a easier way to look at them they have two parts they do business on their own and they also do technology development we are using their technology development arm that is all nothing else.

Kuntal Shah: So Rajeev just one question is can we expect all the engagement metrics like DAU, MAU, churn rate, CAC all to be publish after the third quarter.

Rajeev Jain: I would say we will tell the way we are seeing it as is that we go live between August and September we are already working on what I would call as stage II between we know that given the large ecosystem that we are looking at creating there will be optimization opportunities and that has been polite all large app ecosystem as they go live that is really how the nature is we do think there will be optimization opportunities that last year between in Q3 and early Q4 from end of Q4 from Q4 results onwards we will start to publish answer is yes.

Kuntal Shah: And what are the actions we take for switching cost from one platform to another there are marketplaces right now right insurance investments so what are the switching cost and stickiness consideration involved.

Rajeev Jain: So the switching cost fundamentally is appears as we see only in the mutual fund space otherwise there is no other switching cost you could so that is the only place where I am aware of there is a switch cost that appears if we move from a direct plan **Kuntal Shah**: Rajeev I meant from one platform to other like if somebody has a policy or a live account of mutual fund or FDA in one marketplace what are the inertia and the considerations to switch to your account.

Rajeev Jain: That is something that see Kuntal we at a design level we are originating a customer at a point of sale we offer him an ecosystem we continue to give him rewards we continue to reduce this friction for him he will have a higher cost when did they stay with you I think that is a, at a frame level that is a journey we are going to we think this will become the present and the future of the company from the next five year standpoint so I think while COVID has had many cost I think it has significantly accelerated our orientation and our direction what were rapidly then we had actually planned before COVID and you will see play out very, very rapidly.

Kuntal Shah: What kind of marketing budget we have in mind to acquire customers and or at least make the products aware to a wide spread of potential customer base.

Rajeev Jain: Kuntal we like to deliver it on an equity to our shareholders in general I am reasonably confident on these we will continue to originate customers at the point of sale I am either reiterate it for four times I would not repeat for the fifth time our origination frame is not changing it may bring additional customers had no cost as a result of SEO and a small 40, 50 Crores a year that I currently spend in marketing in SEM so be it we do not need more customer we need greater engagement and we need greater share they gone at that we are super gear about.

Kuntal Shah: Thank you all the best.

Moderator: Thank you. The next question is from the line of Satwik Jain from Perennial Fund. Please go ahead.

Satwik Jain: So given the erratic lockdown then most of the main states and cities so could you walk us through what different you are doing versus the competition to maintaining such good recovery rate.

Rajeev Jain: When we say recovery rates so in general as I said the capacity planning was significantly augmented in Q1 last year if you recall we virtually added a 33% additional debt management infrastructure in Q1 last year that is one part of the conversation two the incremental through the door acquisition is distinctly superior very clearly the B2B portfolio of our which is really get millions of customers are has largely fully churned if you see that on panel #50 you will get a texture of it. If you see our B2B business you see since December 2018 which is virtually 4 and 4 eight quarters we never saw it go pass 99% in terms of being current we are seeing them at 99.52 that is one point here as I have mentioned on panel #7 or #8 earlier that the incremental through the door acquisition is looking and their current bucket wants it to look significantly better so it is a factor of both what is coming through the road and clearly how efficiently we are able to manage those clients is really what so far has played out in the last six months.

Satwik Jain: Thank you so much all the best for the future and hope you stay safe.

Moderator: Thank you. The next question is from the line of Jignesh Shial from Emkay Global. Please go ahead.

Jignesh Shial: Firstly congratulate on a good set of numbers and very overhead disclosers that you have given I had just a single question now if I can see roughly around 830 Crores of macro and the migrant only I can see that right now. Any brief idea about what kind of credit cost are you looking for the current year as well as for the next year at least for the current year considering this COVID wave is still there the second wave has already been there out and now this were getting affected now so any guidance how we are going to utilize this particular overlay or how will be the credit cost planning out for the current year.

Rajeev Jain: So you would appreciate that it is has given you preliminary assessment it would be so let me place this into two parts prior to March 31st or as this crisis that to unfold so rapidly I would have confidently told you we look probably close to we look between 150 to 160 basis points it could have even been lower given the kind of write-off recovery is that here that you are seeing in the last two, three months. Now at this point in time and we are transparently laid out the way we see the situation to be we would have to wait for a little while for us to our full view the only point I wanted to make is that we are technically not carrying any baggage rather carrying a surplus into the wave into the second wave so I think that is what is very clear and important how play it is also showing that through the road acquisition is better it is also showing that our collections infrastructure is much stronger it is also showing that we will remain open for business if the three events which I talked about which is the national lockdown does not happened three to four large GDP contributing states do not going to simultaneous lockdown for three to five weeks and there is as a result of some of these events there is no another moratorium I think we should be between 150 to 170 basis points it maybe a little lagged it may not be the case in Q1 but on a full year basis I think sitting here I would like to believe so but we are as aware as all of us are.

Jignesh Shial: Just one question quickly if I understood correctly there is an OTR of roughly at 3,200 Crores kind of an OTR we had noted and 400 has already submitted into normalized stage II and balance is we are keeping as a stage II only but under our own measures whereas it would have been in stage I is my understanding correct.

Rajeev Jain: That is correct 1,739 Crores does not have any overdue but because they have taken OTR they have classified them as stage II.

Jignesh Shial: Thanks a lot Sir and all the best.

Moderator: Thank you. Next question is from the line of Nischint Chawathe from Kotak Securities Limited. Please go ahead.

Nischint Chawathe: A very simple question from my side what was the total write-off in the quarter.

Rajeev Jain: If you go to panel #5, panel #6 it is specifically mentioned that the total 1,530 Crores was written-off. Now 1,530 Crores was the additional write-off that we had done on account of COVID wave stress as well as on account of write-off policy change apart from that we had 500 Crores of normal write-off that happened in the month in the quarter.

Nischint Chawathe: So total write-off is around 2,000 odd Crores.

Rajeev Jain: That is correct.

Nischint Chawathe: Okay perfect thank you.

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

Hasmukh Gala: Rajeev congratulations for such a brave step you are putting up in the adverse time. Just to try to know can you just tell me how far we will be for our normal growth trajectory etc., looking to the second wave and we do not know how long it is going to start whether you said the moratorium and other issues that would come up so how far we will be from our normal growth profile so will you again be looking at the growth or will you be looking more at the protection of assets good quality assets so what will be the strategy in FY2022.

Rajeev Jain: So look and as I realized it is a fair question that will be asked FY2022 is a long year and that is why it will be a preliminary assessment the way we are seeing it at this point of time on panel #8 and we have exactly outlined to you the way we are seeing it if these three events do not happened we think we will deliver our long-term guidance metrics that you outline for many years a 25%, 27% balance sheet growth and a 18% to 20% ROE and the current gross NPA, net NPA numbers, if it is a if these three events do not happened if we play out then we will have to see. The additional point that I made here is that I think we are lot more braver and I think having faced first wave which got each one of us unprepared financially and health wise I think a lot more preparation is there which is really what we can see on panel #8 and point number 4 I think whether a new origination service operations are on collections in a work from home situation you will continue to deliver 90%, 95% TAT is really the way we are looking it as even if the flows were to increase in a intermediate period which is really what we saw last year I think we have additional staffing in our debt management infrastructure to be able to support. So I can only go by our readiness the as I said even if the recovery was back ended which is possible if this goes beyond May end the three month financial services would have gone live so I think and we have not did that as per our plan this year as per our planning process we have not get that in because as I said earlier to the respondent that we think we were launch in August, September we are very clear there will be optimization opportunities that is really how large app ecosystems work and for next fiscal it will be a big play and that is why the entire management even fully seize that it way out it that you have to deliver the long-term guidance may takes and we have given them the resources for the same. So I can only comment on our readiness very hard to say how things will play out.

Hasmukh Gala: The second question is out of the nine different asset classes which of the asset classes wherein we see some good positive movement getting for the part of the year.

Rajeev Jain: Look if you see Q-on-Q movement for all the eight asset classes we were seeing momentum across you still a little behind in our B2C businesses but otherwise across all and that is why the overall growth was reasonably granular whether it was mortgages or B2C or SME or

B2B it is on a Q-on-Q basis if you look at them they were all growing in a fine way we will remain either deferment and as accordingly is really all that I would say the last thing we would want to ever do we are building this business in a long-term view that is the data does not support we are not going to chase growth whatever it means, but if the data does support we will accelerate growth and are about that as well so the readiness on both sides the prudence requires that we play it that way and the agility is going to be of a important dimension is really what our assessment of the last 13 months more agile you are more you can mobilize.

Hasmukh Gala: Sir last question from my side any further thinking on banking part of it which you have touched up on in the third quarter that you are looking for versus what kind of guidance come from RBI and then you will decide the structure and all that are the way about it so any further thought process crystallize on that.

Rajeev Jain: No as I said as we are awaiting and based on that we will advice.

Hasmukh Gala: Okay thank you very much. Wish you all the best.

Moderator: Thank you. Ladies and gentlemen due to time constraint we take the last question from the line of Hiren Ved from Alchemy Capital. Please go ahead.

Hiren Ved: Congratulations for good set of numbers given the circumstances. I just have two questions, one is that our current cost to income ratio obviously is higher given that the momentum of business and the growth has come down and I remember that when we were talking about our digital transformation one of the objectives was to structurally reduce the cost to income ratio so would it be fair to say that we should see a two stage reduction in cost to income from the current levels one is to go to a normalized pre-COVID pre Bajaj Finance transformation and then because of the transformation initiatives you could see another step down structurally.

Rajeev Jain: Yes, that is really how I mean without the digital transformation mode so far is transformation plan we were at 31.5% so there is no reason for if actually that you would not go there, but as you rightly saying as the operating leverage kicks in as some of the transient pieces of the Opex goes away as a result of the event you will see that happen very clearly.

Hiren Ved: And my second question is that considering what the country has gone through last year because of the first wave and I will leave it that of the second wave do you believe that your addressable market would have got impacted which means what I am trying to say is that let us say you have a credit underwriting framework on it let us say earlier in normal times if you have 100 people you are now making an initial contact and finally 25 going through the board do you now have to address 125 opportunities to get 25 through the door.

Rajeev Jain: So Hiren it is a fair question I am looking at 2 million customers a quarter I have a more simpler view to life in the last two, three quarters not having faced this I would like to believe without having in no manner in fact tightened underwriting standard if you could get 1.8 and 2 million customer 2.2 million, 4 million customers I will take it as it comes I think very deep distribution that is one part being in terms of geography and in terms of point of sale is ensuring that we can capture the market and as Anoop is rightly saying that the overall competitive intensity from a credit also has taken enough clearly not too many P&Ls have the kind of ability to take this kind of shock if we write-off but I write-off flowing it through P&L I do not write-off as a balance sheet entry if P&L has a power to get on write-off they should take it on and run a prudent business so we have that higher power we run a conservative business we think gross NPA and net NPA flow through the P&L reflects the true strength of a business and we will play it on that way.

Hiren Ved: Got it thanks a lot and best of luck.

Rajeev Jain: Thank you and we will keep adding customer franchise 2 million at a time..

Moderator: Thank you. I would now like to hand the conference over to Ms. Bunny Babjee for closing comments.

Bunny Babjee: On behalf of JM Financial I would like to thank Mr. Rajeev Jain and senior management team Bajaj Finance and all the participants who joined them in the call today good evening and thank you.

Rajeev Jain: Thank you all so much for the great call really appreciate thank you. Stay safe.

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