



Bajaj Finance Limited

Q4 FY'25 Earnings Conference Call

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Morgan Stanley

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Moderator: Ladies and gentlemen, good evening and welcome to the Bajaj Finance Limited Q4 FY25 and it's co-hosted by Morgan Stanley. This event is not for members of the press. If you are a member of the press, please disconnect and reach out separately. For important disclosures, please see the Morgan Stanley disclosure website at www.morganstanley.com/researchdisclosures. Please note that this call and your questions will be recorded and may, in certain circumstances, be distributed to clients and or made publicly available. By participating in this event, you consent to such recording, distribution and publication. All participants will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. I'll now hand the conference over to Mr. Subramanian Iyer from Morgan Stanley. Thank you and over to you, sir.

Subramanian Iyer: Thank you, Kenneth. Good evening, everyone. This is Subramanian Iyer from Morgan Stanley. Thank you very much for joining us for the Bajaj Finance Q4 FY25 earnings call. To discuss the results, I'm pleased to welcome Mr. Rajeev Jain, Vice Chairman Mr. Anup Saha, Managing Director, Mr. Sandeep Jain, COO and CFO and other senior members of the management team. On behalf of Morgan Stanley, I thank Bajaj Finance Management for giving us the opportunity to host you. I now invite Rajeev to take us through the key financial highlights for the quarter, post which we will open the floor for Q&A. Over to you Rajeev.

Rajeev Jain: Thank you Subbu. Thank you, Morgan Stanley for hosting us. I have my colleagues here. I have lots to cover. I'll try and cover in next 15, 20 minutes. I'll refer to the investor deck which has been uploaded on the Bajaj Finance website. So let's just jump in.

I'm on panel four. If I take a quarter view. In general, I would say good quarter on volume, AUM, OPEX and trade costs, PBT excluding the additional ECL provision, which I'll cover a little bit later in detail in further slides. For the additional ECL provision that we've taken for annual model redevelopment was up 18%. ROA and ROE were steady in line with the last three quarters. AUM growth came in at 18,618 crores to 416,661 crores. We booked record 10.7 million loans in Q4 and added 4.7 million new customers. Customer franchise stood a 101.82 million just tad below 102 million. And Bajaj Finserv App now crossed 70 million customers and has 70 and a half million customers. The FinAI transformation, which we talked about is progressing well and I'll provide some update on that as well.

AUM grew 26%, OPEX to NTI for the quarter came in at 33.1% continues a downward trajectory which will continue in the next year as well. In PBT growth, there are two one-timers which I'm covering in a little bit of detail. So PBT came in with growth of 11% at 5,647 crores. PAT came in at a growth of 19%. And I'll give you the reconciliation for both these numbers in two slides later. PAT came in at 4,546 crores, a growth of 19%. ROE came in at 19.1% versus a year ago of 20.5% and net NPA came in at 44 basis points.

Let's just now cover the one-timers. There are two one-timers in Q4. In Q4 company annually conducts and conducted again the refresh of its ECL model, which principally incorporates the last 12 months portfolio performance and forward-looking macro-outlook. Given the higher flow-forward rates that we've actually seen through the year and elevated rate costs in the last three quarters, the redevelopment of the ECL model resulted in an additional ECL provision of 359 crores. And primarily, rather mostly, in stage 1 assets. So that's one impact in the P&L in the credit cost line. The second impact is in the PAT line, which is that the company has re-evaluated its income tax position on deductibility of certain expenditures based on favorable court and tribunal orders in recent years. And accordingly, in the process the company has reversed 249 crores in tax expenses from previous years and 99 crores from the current year resulting in the overall tax reduction of 348 crores in Q4.

So if you look at the table below, I'm on panel five, you'll principally see that expected credit loss reported is 2,329 which on a percentage of average AR is 2.33% adjusted for the one time ECL impact is 1,970 crores and is 1.97%. PBT is 5,647 crores which is 11% growth. But adjusted number for the ECL is actually, which is one time for the quarter, is really 11%, but I'm just giving you a

directional input. It's up 18%. And PAT reported is 19% but it's actually up 17%. So these are the two one-timers, one in the credit cost line, another in the tax line. Okay. That's one update to provide.

There are set of three corporate actions that the board has taken today. The board of directors today have recommended, subject to shareholder's approval of course, the following corporate actions: one is subdivision of face value shares from two rupees to one rupee. So we are doing a split. And the board of directors also recommended four fully-paid bonus shares for every one fully-paid equity share of the company. So it will virtually be a one is to ten impact on the number of shares and per share. The board of directors, subject to shareholder's approval... So that's one action or other two actions recommended by the board and subject to shareholder's approval.

Point number two is, subject to shareholder's approval, a final dividend of 44 rupees per equity share has been recommended amounts to 18.88% of standalone profit excluding the exceptional gain. As you would recall, we had exceptional gain on account of dilution in BHFL on account of its listing. Excluding that exceptional gain, the board has recommended just a tad below 19%, which is really in line with our long-term dividend payout policy, a 19% dividend payout for the current year. Point number three, the board of directors today have approved distribution of a special interim dividend of 12 rupees per equity share from the exceptional gain which the company... Which resulted from the sale of investments in BHFL on account of IPO listing in September '24.

These are three large actions and the bonus and special interim dividends principally reflect the strong financial position the company's in, the robust results and positive growth outlook. And since investors are on the call, we do want to acknowledge and express gratitude to all the investors and shareholders for their continued and unwavering trust and support. So these are three/four actions, corporate actions being recommended. The third one is not a recommendation, the first two are recommendations. Third one is within the ambit of the board to make a decision.

Let's quickly go to some financial data. AUM, we talked about, AUM growth we talked about, new loans we talked about. 4.7 million loans for the quarter we talked about, customer franchise we talked about. In terms of geographic footprint, the company is now mostly done with the geographic footprint. That's why if you can see, we added only four new locations. Where addition is happening is in Gold Loan and MFI branches. The company opened 137 standalone Gold Loan branches in the quarter that went by and added 30 MFI branches. Overall, Gold Loan branches are now 964 and MFI branches are now 333.

Liquidity buffer given the rally in the treasury markets, we've been adding a lot of long-term borrowing to our overall borrowing program stood at 18,754 growth, cost of funds came in at 7.99, a marginal increase of three basis points. Overall from a direction standpoint, we expect cost of funds to gradually go down to 7.75 to 7.85 by end of FY26. Anup will cover this point in a little bit more detail when we provide management assessment for FY26. Overall deposits book grew by 19% and on a consolidated basis came in at 20% for the fiscal March '25.

In terms of, I'm on panel eight, NIM group 22%, net total income grew 23%. OPEX to NII improved to 33.1. Employee headcounts today 64,000 people. Attrition rate came in at 16.8% for the year, marginally higher than last year. One important update to provide, which is point number 14, which is that the company onboarded 44 and a half thousand people from outsourced manpower to a fixed term contract employment model in certain of our businesses. We principally see that this action should lead to improvement in productivity and should also enhance our customer service standards.

Let me now cover the important line item, which is credit costs, loan loss and provisions as I earlier said was 2,329 cores. We made an additional provision of 359 cores on account of model redevelopment and primarily on stage one assets. Adjusted for this, loan loss was 1,970 cores and would come in at 1.97%. In Q4 the net increase in stage two and stage three assets which are constantly going down if you actually map it over the last four quarters, stage two and stage three assets are constantly going down, came down to 289 cores. Stage two increase by 784 and stage three decreased by 495 cores. So even if you just look at this metric, we can say that there's some level of improvement on an ongoing basis, but right now quarter at a time. GNP and NPA came at 96

basis points and 44 basis points against 85 basis points and 37 basis points. Continues to be amongst the lowest in the industry.

Profitability consolidated pre-provision profit grew 24%. PBT and PAT have already talked about. ROA came in at 4.6%. ROE came in at 19.1% and capital adequacy was pretty strong at 21.93 of that tier one was 21.09. S&P has upgraded the company's standalone outlook to BBB minus positive from BBB minus stable. Just a small update that BFS which had warrants which were maturing, has exercised option and that money has come into the company. Just some additional updates in terms of senior management personnel appointments. Last year we started the process of Anup moving as DMD and three of our senior officers moved as Chief Operating Officers. In line with that direction, we've also taken a decision to create three new positions, given the growth and complexity of the firm, we've created three new Deputy CEO positions. They will also report to Anup. Manish Jain who runs our B2B business is being promoted to Deputy CEO. Siddhant Dadwal who runs our B2C and SME business is being promoted to Deputy CEO. And Harjeet who runs our Bharat Lending MFI and strategic partnerships business is being elevated to Deputy CEO.

All of them will see expanded responsibilities which are outlined here. As a result of this change, we'll principally have a management council which will have a seven member team, three chief operating officers and three deputy CEOs who would help navigate the company and take it to greater heights. Just to the last point, which is that company, in the fourth quarter, in the quarter gone by took a 12% stake in a company called Protectt.ai investing 65 crores. It's a 5-year-old company and it's a cybersecurity product company. We are amongst a large customer of theirs. It specializes in mobile app security solutions. It would help us strengthen the company's technology roadmap in cybersecurity space. So that's on panel 10.

Q4 BHFL very quickly you would already be aware, very good quarter for BHFL on AUM profit and asset quality. AUM grew 26%. GNPA came in at 29 basis points. PAT grew by 54% and ROA came in at 2.4%. So very good quarter for BHFL. Where PBC stood at 63.28% against the regulatory requirement, 60%. So on all metrics we had a very good quarter. Their AUM came in just a tad below 115,000 crore. OPEX to NIM continues to go down. PBT grew 48%. They had similar benefit in PBT and PAT on account of the direct-ability of certain expenditures, so there is some impact benefit here as well. In PBT to PAT, PAT grew by 54% and ROE came in at 12.1%. And then net NPA was at the 11 basis point.

For Finsec, good quarter for MTF, AUM, PBT, PAT and new customer addition. They delivered an overall MTF-AUM of 4,505 crores and added at least 71,000 customers in the current quarter. Overall franchise just today a tad below a million customers and MTF-AUM grew by 18%. Total income grew by 18% and PBT on a small base grew by 77% to 46 crores and PAT grew by 64% to 36 crores. Overall franchise today a tad below 1 million customers, grew by 40% year on year.

Quickly on FY25 while you know it, I'll just cover one panel. I would call overall FY25 as a mixed year for us as a firm. Good year on volumes, AUM growth, customer acquisition, operating efficiency and pre-provisioning profit. Elevated credit costs resulted in subdued profit growth and that's why it is a mixed year. All the way up to credit costs, it's a good story. Including the credit cost, it's a mixed year story and we hope to change that as we get into FY26. On a full year basis, if you look at it, AUM I've talked about OPEX to NIM overall came in at 33.2. PBT came in at 22,080 crores a growth of 14%. PAT grew by 16% to 16,779 crores. ROE came in at 19.2 and net NPA came in at 44 basis points.

Last year we started to provide a management assessment of what we see the year to be. At this juncture I would just hand over to Anup to take you through FY25 management assessment and FY26 management assessment for BFL.

Anup Saha:

Thank you Rajeev. Anup here. As Rajeev called out the... We have put up the management assessment last year and as a management say what we do and do what we say, this is the report card of our management assessment. The company delivered on its FY25 assessment on customer franchise- AUM growth, OPEX to NIM, ROA, GNPA and NNPA. Credit cost was a clear miss as per our assessment. The company took significant credit action through FY25 and is optimistic about its

impact for P&L FY26. The company also saw margin compression of 49 bps versus the assessment we had given of 30 to 40 bps due to delay in interest rate cuts as compared to the internal projections. As a result, the profit growth was subdued. If we move to the next slide, in a way we have called out all the metric we spoke about.

In terms of customer acquisition, we came in strong, 12 to 14 million we had called out. We did about 18.818 million that came strong. That's the green. AUM growth, 26 to 28 we came at 26%, that's the green. Net interest margin, which I called out as in way a red 49 bps in terms of the delayed rate cuts. OPEX to NTI we called out as 20 to 40 bps. We actually delivered 80 bps. I think that's significant progress there and I will talk about it as we get to FY26 on this specific metric. Credit cost we said 175 to 185. This is where we are not happy about it. That's 2.07. This is excluding the ECL cost. So to that, that's 2.07. Profitability we had just said that it'll be cautiously optimistic, it came at 16%, so that's the red. ROA 4.6 to 4.8, we remain in that corridor 4.6. And ROE to remain subdued due to surplus capital, that came at 19.1. That's the green. So ROA is green, ROE is green.

GNPA we said less than 1.2. It came at 0.96. That's the green. Net NPA less than 0.4, came at 0.44, that's the green. But we are in a business of credit so we miss credit, we don't like it. Moving to next slide, this is essentially the management assessment we are providing for FY26. The customer franchise we remain confident to add 14 to 16 million customers in FY26. The AUM growth estimates of AUM remain at 24 to 25% aided by new lines of businesses launched in last two to three years. Net interest margin, the company has moderated pricing in select unsecured businesses. Cost of fund is estimated to go down by 10 to 15 bps in FY26. Overall we estimate NIM to remain stable in FY26. Fees and other income, the company has moderated its fees and charges and stopped its co-branded card business. The company estimates its fee and charges to grow by 13 to 15% in FY26.

OPEX to NTI is estimated to improve by 40 to 50 bps from our current level, and some of that we are talking about our AI progress. Our credit costs for FY26, the company estimates the loan loss to average AUF in the corridor of 185 to 195. Profitability, the company's optimistic from last year where he called out as cautiously optimistic. We're changing it to optimistic about profit growth in FY26. Return on asset is estimated to be in the range of 4.4 to 4.6. Return on equity given excess capital, ROE metric is estimated to be between 19 to 20% for FY26. Gross NPA, net NPA is estimated to remain lower than long-term guidance. FinAI, we have called this out in our LRS and the company will deploy AI use cases across revenue, cost, customer engagement, underwriting, productivity and controllership. The company estimates to deploy about a hundred AI applications in FY26 and we remain committed to the plan.

Rajeev Jain:

We can probably just go quickly to... We want to cover... Thanks Anup. I just want to cover, go to long term guardrails. Just two, three changes that we've made before we open up for questions. I'm on panel 33, there's a change here so it's important I anchor that.

The only change you principally see here is return on assets, which used to be 4.6 to 4.8%. We're creating a little wider ROE range of 4.3 to 4.7%. And ROE from a long-term guidance standpoint, pre-COVID were 19 to 21. We went up from 21 to 23 and we think this is one of the last remaining residues of COVID that we think, on a long-term basis, will compound between 19 and 21%. So these are two changes from 4.6 to 4.8 versus 4.3, 4.7 and 21 and 23 to 19 to 21. This is a long-term/medium term guidance, we find there's improvement we will update that to the investors as well. I think that's mostly just quickly on to GNPA and NNPA last the provisioning panels rest of the slides are routine in nature. Cross-sell franchise continues to move strongly. It's at 64.45 million. That's on panel 57. 63.3% of the customers on an aggregate basis within a cross-sell level, so the opportunity remains very large. The PPC remains pretty strong. Just the last panel I'll cover on provisioning,

This is, I'm on panel 65, across portfolios at the moment, on a year-on-year basis that you principally see the largest moment is in two wheeler and three wheeler finance, but partially you are to ignore that because the portfolio is winding down. Majority of the portfolio belongs to our previous captive financing business and that's going to wind-up more. That will fully wind down by March June '26. Otherwise on a year-on-year basis you see some level of movements here. 57 basis points to 59 basis points in GNPA for urban sales finance. Urban B2C loans 1.03 to 1.17 and so on and so forth.

So that you see marginal movement on a year-on-year basis and adding up to aggregate number being 85 basis points GNPA to 96 basis points. And similar aggregate movement you see in NNPA from 37 to 44 basis points. That's really all we have to share, lots of change, lots of... And we are well into the new year. Happy to answer questions. I just want to make one point before I open it up to questions that from next quarter onwards, Anup, as the Managing Director will do the investor call. I'll of course always be there to assist him but we will trade places from Q1 onwards. Open to questions.

Moderator: Thank you. We'll now begin the question and answer session. If you would like to ask a question please press star followed by one on your telephone keypad now. If you change your mind, please press star followed by two. When preparing to ask your question, please ensure your phone is unmuted locally. Before asking the question, please introduce yourself providing your name and your organization name. Please limit yourself to maximum of two questions so we can accommodate as many as possible. Ladies and gentlemen, we'll wait for a moment while the question queue assembles.

Thank you. We'll now take our first question from Chintan Joshi from Autonomous.

Chintan Joshi: Hey, good evening. I wanted to start with panel 24. Thank you for panel 23 and 24. It's great to see that you are constantly judging yourselves against what you expect. If I could go into a little bit more detail for FY26 starting with AUM and then following on into NIM. On AUM, if you give us a refresh of where do you think growth will be easier to find and where growth will be challenging to find over FY26, that would be helpful. And on NIM, quick data keeping, what is the exact NIM, reported NIM for the current quarter? And why should we not expect some NIM expansion with falling rates? That's what we would typically expect of you. What's different this time around? Thank you.

Rajeev Jain: Yeah, so one is on AUM, another is on NIM.

Anup Saha: Hi, this is Anup here. I think at a overall level we remain very small. As we call out our aggregate market share is only 2.14% of India's total credit.

If I look at from a count share, that number goes to about seven, seven and a half percent. Across all businesses of ours, other than the B2B business where we have a 54% plus market share, our market share remains small. So as we plan to grow, I think the growth will come across all businesses. In addition to that, we are seeing very good business growth in some of our new businesses, in terms of the secured businesses we started in last few years. We are seeing very robust growth in Gold Loan business. So in totality as we look at growth, we want to ensure that we operate in the corridor of what we are led to in terms of all products. And limited market share I think allows us to continue growth. Our franchise addition this year also came at about 17, 18 million. As long as we continue to grow our new franchise and as long as we continue to stay on our acquire and cross-sell frame, I think growth is reasonably there.

Coming to your second point on NIM, why should it not increase? I think we called out a couple of points. We did some moderation in terms of certain specific unsecured businesses which has... In terms of NIM, there has been some compression which we called out. But at the same time we believe the cost of funds benefits for the full year we would get about 10 to 15 bps benefit on that. Net net, we anticipate that our overall NIM will remain stable. That's the position at this stage in terms of NIM compression. If cost of fund goes down much more than what we have planned in our current scheme of things, this can show some improvement. But our current assessment it'll remain stable current.

Chintan Joshi: Are you saying that you're being a little conservative on the cost of funds? Are you saying you're being a little conservative out here or is this fair?

Rajeev Jain: Probably conservative to the extent of five, seven basis points just to be fair, in all candor. But it's not like it'll be instead of 10, 15, it could be 30, 40 basis points because we... Let me just step back and

make a point that we are very clear that liquidity risk is not a risk that we take. So we lock in long-term liabilities as and when we can. So I think that, while it protects and strengthens the overall balance sheet also takes longer to pass through. So I think that's just one added point I want to make. We are confident of 10 to 15 basis points. It could go to 20, 25 basis points, but that's the farthest.

But important point I want to make, which is written in the panel there is point number three. Four, sorry. That on fees and other income we have moderated our fees and charges and that's why you see the growth is forecasted with 13 to 15% here versus a 24 to 25% growth. This has a little higher impact than even the cost of fund impact. It's important I make that point or land that point, to be clear. But it's done in the interest of sustainability and longevity of the business and we think it's the right thing to do and that's why we've taken this action.

Sandeep Jain: The thing that I understand that this question of-

Chintan Joshi: And the reported name number.

Sandeep Jain: Yeah, just one second. I understand that this question of foster fund will come from other guys as well, so let me give some more texture. I think in terms of overall mix of borrowings, about 75% of borrowings are fixed rate borrowings between FDs, NCDs that we raise, that's about 75% of borrowing. They are typically longer than our money that we're locked in. Repricing will take time. It'll happen slowly and gradually. Bank money we are hoping should get repriced much more quickly. Incrementally have we started seeing benefit in terms of NCD rate and CP rate? Answer is yes. We have seen softening in NCD rate by about 40, 45 basis points in the last about 30 days. CPs have also improved about 70, 80 basis points in the last 30 days.

So things are moving in the right direction. RBI is also taking lots of actions in terms of ensuring abundant liquidity. We remain watchful of the situation. Idea is to lock in as much we can lock in to reduce burn in times to come. That is the important point that Rajeev was calling of liquidity risk management. As a result, we have taken a conservative number I would say. A 5, 10 basis point could still accrue to us if the environment continues to remain the way it is today.

Chintan Joshi: And the reported NIM number?

Sandeep Jain: We don't really report NIM number, but let me tell you that the quarter four NIM number is in fact lower than the full year NIM number for FY25 which means, as Anup made a point, NIM to be stable in FY26 there is some catch-up has to happen in the next year. So that's the only point that I would put on the table.

Rajeev Jain: But we are confident that we'll catch up just to make the last point.

Moderator: Thank you. We'll now take our second question from Abhishek Murarka from HSBC?

Abhishek Murarka: Yeah. Hello, am I audible?

Rajeev Jain: Yes, Abhishek.

Abhishek Murarka: Hi. Hi Rajeev. Hi everyone. So my question is on this ECL model refresh, what kind of history do you take? Do you take five years, six years and why has there been additional provision? Is it that FY21 or '22, or '20 and '21, which were higher credit costs years, those have got added and next year's refresh we'll probably see some exclusion there? So if you can give some sense that will be useful.

Sandeep Jain: That's a fair question. Abhishek, ECL, as you would know is a complicated modeling process. Stage one typically look at 12 months performance and 12 months forward-looking view in terms of provisioning. As Rajeev was communicating as part of opening remarks, we have seen elevated credit costs in the last three quarters particularly. Quarter four last year was okay, quarter one,

quarter two, quarter three was elevated credit cost. As we ingest this information into the ECL model building, ECL model assumes that the past is reflection of future. As a result it throws up a higher number of provision, a higher amount of provisioning requirements for stage one. Your point is correct. If things were to improve in FY26, should one expect releases to come in future? Answer is yes. But as far as model processing we do look at this information. Point number one.

Point number two, we do look at longer-term information which is five, seven, eight-year horizon information. Mainly for the purpose of stage two and stage three, which is for evaluating PD, LGDs and EADs for those portfolios. As you'll notice, stage two has seen marginal increase in the coverage ratio. That probably is an indication of recent digitization that everyone has witnessed. That's point number two. Point number three, stage three seems to be holding up quite well because stage three only has one value element, which is LGD because the customer has gone into delinquency PD and EAD is already a hundred percent. The only element that can move is LGD. Given that we look at longer term averages for casting the LGD number, it has not shown any kind of significant worsening. As a result, stage three continues to hold well. One and two is where we have to do catch, up more catch up in stage one than stage two

- Rajeev Jain: And aggregate standardized provision
- Sandeep Jain: Yeah, aggregate standardized provision as a result, which used to be 69 basis point until last quarter has gone up to 77 basis point. If you were to do a map, majority of the provisioning impact is coming in stage one itself.
- Abhishek Muraka: Right. So basically for stage one and stage two you have taken a short, especially stage one, you have taken a shorter period the last three quarters impact is what is getting projected forward. If I have to understand it.
- Sandeep Jain: Yes. The bias is more of last one year performance in building the stage one provision.
- Anup Saha: I think other point is we do an annual refresh of the model to that extent catch up.
- Sandeep Jain: And if I were to do a theoretical discussion Abhishek, this could be a situation for considering underlay. But as a prudent management, prudent company who would not discuss about underlays, as a result we have allowed the model to flow a higher provisioning for stage one. We are more than happy to consume it in the current quarter.
- Abhishek Muraka: Okay, understood. And if I back calculate your write off works out to around 1,700 crores, is that correct for the quarter? Ball park.
- Sandeep Jain: That number is not necessarily correct. My calculation says that the number is 2,100 crores for the quarter.
- Abhishek Muraka: Okay, 2,100. Okay. All right and then finally some commentary on growth in rural B2C and some of the... Yeah, basically rural B2C. How do you see that? I think in the 2Q call you had said that if things go fine for the next couple of quarters then that portfolio could probably grow at 20, 25% in FY26. So do you see that kind of outlook now and are you comfortable in that segment going forward?
- Sandeep Jain: Let me just provide one view on that. I think that's an important input and then Anup will give a view on FY26.

As we did the redevelopment of the models. In fact the rural personal business didn't require any additional provisioning because as we have started seeing some working in the portfolio in the last year, which is FY24, the catch up provisioning was already taken in FY24 itself. So the entire impact of 359 crore that we're discussing has no contribution coming from rural B2C business just to place it for ease of reference and Anup will give guidance on FY26.

- Anup Saha: So we had called out the rural B2C business two years back, used to grow at about 36%. We did see some stress in the portfolio. We took series of actions. It came down to about 5% growth rate. From there on it has started growing back very nicely. The other thing we are seeing is the early vintage 3 MOB 6 MOB in rural B2C is improving. As Sandeep spoke about, even the ECL that is also clearly calling out, we remain very confident from here to grow the rural B2C business. We also significantly strengthened our debt management capability in rural. And as I say, the point around the risk point of rural B2C growing back all over again, it is also backed by our rural B2B business remain very, very rock solid during the period. So our incremental customer base there has grown. So that gives us a fair bit of confidence on growing rural B2B from here on.
- Rajeev Jain: Just one added point that Anup made, I would like to reinforce, that principally across the firm there are only three key metrics from a risk standpoint that we are really looking for apart from every other metric is how is the color of the book changing that? How is three months on books, six months on books, nine months on books, and 12 months on books changing, because we are a fast churning book. The BFL standalone on book churns in 18, 19 months. That's really been the... That's how the book churns. As long as the three MOB six MOB and nine MOB and 12 MOB change, which we are watching since August/September very closely, and the metrics that we are looking at is pre-COVID. In certain instances lower than pre-COVID. So it's just a matter of churning the book and we should look at some time in the current fiscal losses to be significantly lower. So I thought since Anup made the point on vintage metrics, I'll just answered that point.
- Abhishek Muraka: Sure, sure. Thanks so much Rajeev, Anup and Sandeep for taking that and I'd also like to congratulate Manish, Siddhant and Harjeet for the appointment as Deputy CEOs. So congratulations and thanks a lot for taking my questions.
- Rajeev Jain: Thanks Abhishek. Thank you.
- Moderator: Thank you. We'll now have our next question from Kunal Shah from Citigroup. And as a reminder to please limit yourself to a maximum one question so we can accommodate as many as possible. Your line is now open. Thank you.
- Kunal Shah: Yeah, yeah. So the question was on growth particularly 24 to 25 odd percent. It seems like some change in stance till last time we were pretty confident of achieving the long-term guidance of 25% plus. So no doubt I think you indicated in terms of customer franchise, new businesses, but then why particularly 24 - 25% growth for the next year, which are the segments wherein you expect some kind of a pullback on the growth side
- Rajeev Jain: On a lighter way I'll just make a point at 420,000, a 25% growth would mean 105,000 crore net addition. I think it'll be for the first time it'll draw a hundred thousand crore net addition but I'll let Anup answer to the rest.
- Anup Saha: I think the point around growth.
- Kunal Shah: We are still small in terms of the market share.
- Sandeep Jain: Agree. Good, good point.
- Kunal Shah: Yeah, so you said market share is still 2.14, which gives you more confidence? Yeah,
- Anup Saha: No, no I think the point around we still remain very small in terms of our contribution to the overall credit. At a design level we grow at about two point X of nominal GDP and about two times of the growth of the industry. But for us very clearly, if I had to make a choice between growth, credit and profitability, we are a risk business. So the point we are not happy with this year as we called out that credit did not play out to our appetite. So our core objective at this stage is first to get to the credit cost corridor, which we have laid out to that. The early vintages are looking good. We have significantly fortified our debt management capability. We get there first. I think that's the first thing.

Once we get there, we are not saying it will not grow. We see opportunity, we will seize it. We are also utilizing this time as we called out the FinAI strategy is to significantly get operating leverage in terms of our cost structures. Because I think that's very important to reshape the P&L that focus on the cost to income ratio, bring it down, do the transformation between the FIN components of it and the AI component and then restart the growth. Because with those metrics the growth would look a little very different than in the current. So I think stay with the credit first, get the OPEX to NTI sharpened through AI transformation and we see growth we will take it. I think that's the stand we are taking. Is that a little different than... But as Rajeev said at the size 25% is definitely looks to be a rightful long-term sustainable growth

Kunal Shah: Can put in one more question?

Rajeev Jain: Sorry. Sorry. We get credit and control, as Anup said, there's sufficient capital, sufficient liquidity, we're a fully diversified book. There are lots of new businesses. So at one level I agree opportunities outweigh risk to the 24, 25% growth. But I think, as Anup said, we are a credit business. We want to make sure credit first and then growth. And we'll fix that. We are pretty confident of that. It's just a matter of quarter here or quarter there.

Kunal Shah: Yeah, so when you give that credit cost guidance of 1.85 to 1.95, you still will believe it is relatively higher to grow at more than 25-odd%? Or is it like the pool in stage two which has got increased in this quarter? That's something which is worrying you in terms of particular rise in seasonally strong Q4. Is that the reason?

Rajeev Jain: Yeah, the book has to churn fully, Kunal, that's point number one. I would foresee that by third or fourth quarter we should be lower than... I would forecast in a reasonable manner lower than our pre-COVID levels. So that's unless and until something dramatically changes in the macro environment over which we have limited control. Otherwise, I foresee third and the fourth quarter the numbers should look lower than our pre-COVID numbers. So it take that as a-

Kunal Shah: On credit cost?

Rajeev Jain: Yes, yes, on credit costs. Take that as an assessment at this point in time and we go with the flow

Anup Saha: And as we make the point, a couple of points you already spoke about secured the set of actions, even the three PL action, which you have taken in last few quarters, we are now back to pre-COVID level on three PL which had gone up to 12% is back to 6, 7%. In rural it is down to two and a half, 3%. So tremendous actions, those are showing benefits. The other is two wheeler and three wheeler which is the captive business because we stopped incremental doing business. It's a winding down book. If you look at the credit cost, a large part of the credit cost was sitting there. The incremental two wheeler business open architecture, the texture of that business is very different.

Rajeev Jain: It's half the loss list.

Anup Saha: Yeah, it's half the loss list because it's a mix of bikes and scooters and 50% of that is scooters.

Kunal Shah: Got it. Got it. Okay, thanks. Thanks. That clarifies and all the rest. Yeah.

Moderator: Thank you. We have our next question from Viral Shah from IFL Securities.

Viral Shah: Hello?

Rajeev Jain: Yeah, go ahead. Go ahead.

Viral Shah: Hello?

Rajeev Jain: Go ahead we can hear you.

- Viral Shah: Thank you for the opportunity. Yeah, thank you for the opportunity. Rajeev, just two questions. I would say one, when I look at the asset quality panels on the page 69 onwards, in all the panels, the amber sign remains where it is in the previous quarter. And when I see say the stage two and the stage three, that has been still inching up. So basically what gives us this confidence that say, next year it's going to be much better? Apart from the fact that maybe there may be some ECL release as you mentioned towards the end of the year. Is there the early trends that you're seeing, if you can give some bit more color on that.
- Sandeep Jain: Yeah, I didn't say ECL release. I said if things were improved significantly, maybe the model can show ECL release number as well. That's not certain. The model has to show that number in the next year as we deliver FY26. So that's number one. You had a point on this, Rajeev.
- Rajeev Jain: So look principally what gives us confidence is what are the early vintages. Say we churn, as I said, the book is 18, 19 months. We are seven, eight months into the tightening that we started to do three MOBs, six MOBs, nine MOBs are beginning to look. We don't have 12 MOBs because we started to take action from August, we still don't have 12 MOBs. Those are being tightened to levels, as I said, across the board, across portfolios to levels lower than even pre-COVID. So that's really what is giving us the confidence. And what is giving us the confidence means I am very confident because it's structurally lower or better customer that we are acquiring now. And the leverage levels of those customers are significantly lower. So that's what is giving us the confidence. That's why I said I'll connect this dot to the earlier point that Kunal was asking that as we get that into control, maybe the growth could be higher. But this is the priority at this point in time, which is credit.
- Sandeep Jain: And if you look at current year in terms of loss to average AR yeah, just one point, as Rajeev called out 2.07% is the number for full year. Quarter four actually came at 197 adjusting for that additional provision on ECL model development, it came in at 197. That's one good sign that we are seeing that after some quarter a few quarters we have started seeing the number go down. That's point number one. Point number two, the major issue that we faced, and that's true for industry as well in general is across unsecured businesses. More personal loan than anything else. The auto finance business is two wheeler, three wheeler financing business, which is in run down mode for us.
- Used car financing we have significant action we have taken. I think we have discussed that in the previous call as well, that nearly one third the business we had let go in the used car financing business to keep portfolio under control. The kind of action that we have taken in terms of re-pivoting the PLCS business, both rural and urban, increasing the affordability of EMI for the customer, lowering the ticket size and other actions across all businesses. Lowering exposure for customer should definitely have a bearing in terms of how we get the great outcome for the next year. That's just an additional point.
- Viral Shah: Got it. Very clear. And Sandeep one more for you. So when you say that the NIMs are going to be kind of stable, you highlighted the point that the exit quarter NIMs are materially lower. And on a YY basis, when I look at next year, we will also have the hit from the Bajaj housing kind of portfolio flowing through at a consol level. So on a YoY basis, are we confident that the NIMs will be flat?
- Sandeep Jain: So I did make a point saying that if 10, 15 basis points of cost of fund improvement comes through, we should be able to maintain NIM at the current level. If it doesn't flow through or the flow through is higher, the numbers can be marginally plus and minus. At this point in time. The bias towards more benefit in terms of cost of fund given the kind of improvement that we have seen in the money market for us and for the industry as well. So keeping that view in mind, it's more of positive at this point in time, but we'll see quarter at a time.
- Viral Shah: And just a clarification, the rate, the cost of fund benefit that you are guiding for, you're assuming what, a 75 basis points of rate cuts or a hundred basis points?
- Sandeep Jain: So I'm looking at current cost of an environment where the yields have come down considerably in the last 30 days across NCDs as well as commercial paper market. Commercial paper contribution though is low. I think that's the only thing that I'm confident in at this point in time. I'm assuming that

the liquidity environment will remain positive, which is where I think RBI has been taking lots of actions in the last couple of months. Keeping that in mind, there's a positive bias towards cost of fund.

- Rajeev Jain: No, but since February, which is when our planning cycle happens, we are baked in so far three cuts. Now if it's higher to the earlier point, depending on which way the economy is headed and depending on actions by Reserve Bank, we have so far baked in front-loaded rate cuts till June.
- Viral Shah: Got it. Makes sense. Thank you very much for taking all my questions and all the best team.
- Moderator: Thank you. We'll now take our next questions from Kuntal Shah from Auckland Capital. Please go ahead.
- Rajeev Jain: Yes, Kuntal? We cannot hear.
- Moderator: Hello, Kuntal, your line is open. Please check if you have muted yourself. Thank you.
- Kuntal Shah: Hi, can you hear me? Hello?
- Rajeev Jain: We can hear you.
- Kuntal Shah: Can you hear me?
- Rajeev Jain: Yeah, we can hear you.
- Kuntal Shah: Yeah, sorry. Yeah, when I look at console long-term guidance you gave last quarter and this quarter, AUM growth remains same, profit growth remains same, GNPA, NNPA, everything, all corridors remain same. So how do you internalize ROA corridor widening and return on equity corridor widening? Because even if you account for dilution of Bajaj housing finance, 14 odd thousand crore, how do you explain this?
- Sandeep Jain: Yeah, so Kuntal, if you look at the current year's ROAs it has a range between 4.5 to 4.6. So the 4.0 - 4.7 corridor does articulate that very clearly. That's point number one. In terms of ROEs, we are mindful the fact that in the last, almost more than a year now, we have been sitting on surplus or additional capital. We did a QIP of nearly 10,000 crores. We had inflows that came in of six and a half thousand crores upon listing of BHFL on console basis. We are mindful the fact that surplus capital does put pressure on ROE. Adjusted for that the number would look a little better. But keeping that in mind for the medium term basis, the guidance is 19 to 21% kind of ROE. And the immediate next year view is a 19, 20% corridor, which I think Anup highlighted during his assessment for FY26.
- Rajeev Jain: Sorry. Over the next two years we still have to bring our stake down from a regulatory requirement standpoint down to 75% in BHFL.
- Sandeep Jain: That will bring more capital.
- Rajeev Jain: Yeah. That will create more capital. So that's why we thought it'll be prudent on our part to outline to shareholders that as a result of significantly surplus capital, we foresee long-term guidance to change from 21, 22 to 19, 20. To the point, and we've done the math, if you knock off on both sides, the excess capital and excess and the cost of interest because interest comes in raw material in our business, that number will probably be 60, 70 basis points.
- Sandeep Jain: 70 to 90 basis points.
- Rajeev Jain: 70 to 90 basis points. So knock off both sides, take the excess capital, take his cost away and we would see instead of 19.1%, 19.7, 19.8% ROE.

Kuntal Shah: Any plans to use this excess capital?

Rajeev Jain: Sorry?

Kuntal Shah: Any plans to use this excess capital

Rajeev Jain: Plan principally, we generally like to build businesses. That's our orientation as a firm. We continue to remain organic in nature, but we continue to explore. Unfortunately, even as we explore, when as operating managers, we come to a conclusion that if we can take three years to build that size of business, why not build? So the bias remains towards building than buying. So unless and until an event happens, which we'll announce to the investors before we do it, I would say organic is our way to build business.

Kuntal Shah: Thank you and all the best.

Rajeev Jain: Of course we're giving dividend today. So I think that's another way to improve ROE.

Sandeep Jain: But that's from the exceptional gains.

Rajeev Jain: Yeah, that's from the gains but just in a lighter way.

Kuntal Shah: Thank you and all the best.

Moderator: Thank you. We'll now take our last question from Vinay Singh from MK Global. You may go ahead.

Vinay Singh: Yeah, thanks for the opportunity. Just again, going back to the credit cost guidance, that is 1.85 to 1.95%. Slightly higher than what you had initially guided for FY25. And considering the fact, if I look versus pre-COVID, you have a material composition coming from BHFL on mortgage, that kind of a very low credit cost. So if there is, in this five years, this structural shift that, okay, as you go more and more to grow your customer franchisee somewhere there kind of you're going down the credit cost. What's happening here? I mean despite mortgages merely reaching 30% of your AUM. The credit cost, what was the pre-COVID level vis a vis now what you are kind of forecasting that's on the higher side. So adjusted for the mortgage probably is materially higher. So what is explaining that position?

Rajeev Jain: I just want to correct you that consolidation, even if you look at five years ago, mortgages are 31% of the book even today it's 31% of the book. Actually you would find that over five years. And going back to earlier questions that people were asking that then we were saying that opportunity remains very large, which is true. That all lines of our businesses have continued to compound at the same level. So just to correct that, even '19, '20, I distinctly remember the number 31% mortgages were. Today also it's at 31.1%. So mix has not moved much at all, actually. I just want to make the point and then I will hand it over to Anup to add to it.

Anup Saha: No, I think as Rajeev clearly called out when you're calling out the number for full year basis, we do believe we are still not fully out of the woods. In terms of certain businesses like urban personal loan because the early vintages are showing fine, but we still have a portfolio which has to mature the earlier portfolio. So that's one part of it. I think the second, as we continue to act on it, the numbers, the second half of the year, we believe will come in much better than the full year average what we have called out. So in way, it's a gradual, quarter on quarter, we'll see the benefits which will start coming in.

In terms of mix change. We are not expected to dramatically change the mix at all because what we have called out, even in our LRS, the segment mix, which we run between various businesses at most can shift one, one and a half percent sideways. So that's not going to change that. So I think the other big thing, which I also called out is the captive two-wheeler and three-wheeler. As that book starts

winding down, we will start seeing benefits of that because we did see elevated credit costs in some of those portfolios as well.

- Rajeev Jain: It used to be 5% of the book and 12, 14% of the credit costs structurally over years. And that book is in a wind down mode very clearly. It's down to 10,000 crores now from 17,000 crores a year ago, 12,000 crores.
- Anup Saha: 12,000 crores down to 4,500.
- Rajeev Jain: Four and a half thousand by March '26, the captive book. So that's one big change that will happen and it's accretive from a credit cost standpoint.
- Vinay Singh: Yeah. Okay. Thank you.
- Moderator: Thank you. That was the last question we can take today. And I would now like to hand the conference over to Mr. Subramanian Iyer for any closing remarks. Thank you.
- Subramanian Iyer: Thank you. Rajeev. Anup, Sandeep and Bajaj Finance Team. Rajeev, Anup, do you want to make any closing comments?
- Rajeev Jain: No, we've answered all the questions. Thank you so much for listening in. Thank you.
- Anup Saha: Thank you.
- Rajeev Jain: Thank you, Subbu. Thank you Morgan Stanley.
- Subramanian Iyer: Thank you.
- Moderator: Thank you. On behalf of Morgan Stanley, that concludes this conference. Thank you for joining us and you may now disconnect your lines.