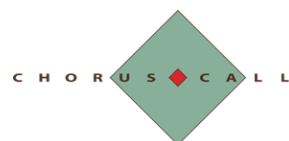




Bajaj Finance Limited
Q4 FY'26 Earnings Conference Call
April 29, 2026



MANAGEMENT: **MR. RAJEEV JAIN – VICE CHAIRMAN AND MANAGING DIRECTOR – BAJAJ FINANCE LIMITED**
MR. SANDEEP JAIN – CHIEF OPERATING OFFICER AND CHIEF FINANCIAL OFFICER – BAJAJ FINANCE LIMITED

MODERATOR: **MR. AJIT KUMAR – JM FINANCIAL LIMITED**

Moderator:

Ladies and gentlemen, good day, and welcome to Bajaj Finance Limited Q4 FY'26 Earnings Conference Call, hosted by JM Financial 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 star then zero on your touch note phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ajit Kumar, Executive Director, JM Financial Limited. Thank you, and over to you, Mr. Kumar.

Ajit Kumar:

Thank you, Neerav. Good evening, everyone. This is Ajit Kumar from JM Financial. Welcome to Q4 FY'26 Earnings Call of Bajaj Finance Limited. On behalf of JM Financial, I would like to thank Bajaj Finance management for giving us the opportunity to host them. To discuss the earnings, I'm pleased to welcome Mr. Rajeev Jain, Vice Chairman and Managing Director; Mr. Sandeep Jain, Chief Operating Officer and Chief Financial Officer; and other senior members of the management team.

I now invite Mr. Rajeev Jain for his opening remarks, post which we will open the floor for Q&A. Over to you, Rajeev.

Rajeev Jain:

Thank you, Ajit. Thank you, JM. Good evening or good morning, depending on the geography that you're in, and welcome to BFL Q4 earnings call. The investor deck for Q4 has been uploaded on our website. I hope you had an opportunity to go through the same. I'll focus on key updates for Q4, year gone by, and management assessment before open the floor for Q&A. I expect to take between 20 to 25-odd minutes.

Let me just quickly jump to panel number 4. Let me just clarify and it's given in yellow there that these numbers are before onetime actions and a set of presentation changes. Overall, I would say, from a company standpoint, it was a pretty strong quarter across all key metrics of volume, new customer addition, AUM growth, credit cost, profit growth, return on assets and return on equity.

During the quarter, the company crossed the milestone of INR 5 lakh crores AUM. It's a proud moment for us as a company to end the quarter at approximately INR 510,000 crores. In Q4, AUM grew by 22.4% and PAT grew by 26.7%. In Q4, AUM grew by a record INR 25,500-odd crores. We booked 12.9 million loans and added 3.93 million new customers to the franchise. Overall, the customer franchise as of FY'26, March stood at 119.3 million customers.

Let me now go to Panel 5. It's a little busy slide. There are set of one-timers pertaining to Q4 FY'25 and Q4 FY'26.

The principal objective of this panel is to provide a simplified reconciliation of core financial performance with that of reported numbers. That's the objective. Let me start, first of all, with Q4 FY'25 last year. In Q4 last year, the company had recorded an additional ECL provision of INR 359 crores. Also in Q4 FY'25, the company had recorded a tax benefit of INR 348 crores. That's Q4 last year.

In Q4 this year, the company has taken an additional ECL provision of INR 142 crores towards management and macroeconomic overlay. That's point number one. Two, the company has also revised disclosure of recoveries against written-off loans. This was earlier presented under other operating income. It will henceforth effective Q4 FY'26 will be reported under loan losses and provisions as a net number. This has no impact on PBT and PAT for the quarter, but changes the ratios. It principally leads to redefining 2 key metrics, which are important for investors and for us as management, which is opex to NTI and loan loss to average AR.

As a result of this change, the opex to NTI is increasing from 33.2%, which is what it has come in to 33.8% as a result of this reporting change. And loan loss to average AR is reducing from 1.75% to 1.65% , this is really how we will report going forward as a company. The analysts will have to adjust the numbers to reflect this.

I will summarize once again, this panel principally is intended to help clearly depict the core profitability, which has seen a growth of 26% on PBT, as you can see, and 27% for PAT. I'll quickly cover the key points on Panel 6, 7 and 8. I'll only cover the high points. As I already said, AUM crossed INR 5 lakh crores. The growth was pretty secular across all businesses. The gold loan portfolio continued to witness strong momentum. It grew by 115%. The business now contributes to 3.5% overall AUM. We foresee gold loan portfolio to probably cross 5-odd percent of total AUM by FY'27.

Other lines of businesses also continue to grow in a healthy manner. That's covered in Panel 67 later in the slides. MSME continue to see muted growth. It grew by 6% only on account of a set of proactive risk actions that we have been taking since Q2 FY'26. We expect that it should come back to double-digit growth or the company growth momentum between Q2 and Q3 of FY'27. Cost of funds improved by 4 basis points in Q4 and came in at 7.41%. NIM remained steady.

Deposit book came in at INR 68,533 crores. It contributed to 16% of consolidated borrowings. Opex to NTI, going back to the earlier point that I made, came in at 33.8% in Q4 as against 33.6%. These are new numbers. Otherwise, it came in at 33.2% an improvement of 10 basis points versus Q4 last year. There was a marginal increase sequentially, primarily due to, I'm talking sequential on account of cost of new Labour Code and accelerated gold loan branch expansion.

AI implementation continues to accelerate across the length and the breadth of the company, and I'll cover that shortly. Full-time employees stood at 71,613 employees. We added just a tad below 1,800 employees in Q4, 50% of them were actually in gold loan and MFI. Loan loss to average AUM as what investors have been used to came in at 175 basis points or 1.75% as against 1.97% in same period last year or Q4 FY25.

Stage 2 and Stage 3 assets, just to give you a texture on credit quality, have sequentially reduced by INR 430-odd crores. We've seen continued improvement on this metric through FY26 over the last 3 quarters. The vintage credit performance, which does not show up in loan loss to average AUM across 3 MOB, 6 MOB, 9 MOB continues to reflect significant improvement in credit quality and gives me reasonably high degree of optimism about credit cost outlook for FY27.

I'll also cover 2 key points, which will further reflect our confidence on credit cost outlook for next fiscal, which I'll cover in a moment, but GNPA, NNPA came in at 1.01% and NNPA came in at 41 basis points. Provision coverage ratio was at 60% as against 54% same time last year. The point that I made on credit quality, a reasonable amount of credit cost in the previous year came in from the MSME lines of business, which, as I said, we've already taken proactive reduction by close to 30%.

That's why it grew by 6% in full year where the company grew by 22.5%. It should be back in growth mode. And I think in our assessment, the worst is behind us by June '26. The captive 2-wheeler and 3-wheeler business, which now contributes to less than 1% of AUM, but even in Q4 accounted for 13% of GNPA and 5% of overall credit cost in Q4. This book will principally just wind down to less than INR 1,500-odd crores by September '26, it will lead to further improvement in GNPA and should result in lower credit cost for FY27. Let me now just cover FinAI transformation. There are 5 panels. They may seem heavy, but I want to spend just a moment to make a point that why we're providing reasonable amount of coverage on FinAI transformation that there's a principal difference between deploying use cases and transformation.

Fundamentally, transformation is about reshaping the business model and in general, covers all aspects of business. I just want to highlight that we are doing transformation, and we are not just doing use case deployment. That's why we are presenting the expanse of the work company is doing on AI. So that's just one point I want to leave.

We expect FY27 to be probably the busiest year from a FinAI transformation in terms of outcomes, inputs and outputs as a firm and significant amount of time, effort and energy of management team over the last 15-18 months is going into it. And should start to reflect in terms of the way consumer and employees experience us as a company in FY27.

Just to give you some texture on the transformation work, I'm on Panel 9. The company -- I mean, the biggest part of AI is about whether you have the talent or not. We have 203 people in the firm who are dedicated as the AI unit. We are expanding that to 363-odd resources by June'27. So we continue to expand the AI resourcing to ensure it can meet our aspirations and ambitions of becoming an FinAI firm.

The step number 1 in FinAI transformation clearly is about Data for AI, 52 million voice-to-data conversion happened, around 2.3 million text-to-data conversion happened and leading to significantly better insights on engagements or conversations with customers. AI-generated digital banners and videos are enabling faster and cost-efficient marketing and discovery infrastructure.

Almost 100% of our videos are now AI-generated. On customer engagement, 27 AI, voice and text BOT's are now live and all customer engagement is going into BOT interface by June'26. By June'26, any communication across any channel by us as a firm, whether for sales, service, DMS would have a text AI BOT in it. So across 32 different lines of businesses that we run, plus a whole host of services.

And we send, as I've said in the past, 260-odd million pieces of communication on a monthly basis. All of them will have a bot embedded in it. On customer onboarding, AI-based data extraction, auto fill application, product level scans, label scans, auto QC are increasingly reducing manual effort, improving controllership and straight-through processing.

There are a whole host of numbers I've given here. The idea is to all the way between Panel 9, 10 and 13, there are numbers that you can see here. As I said, the intent is to principally give you a texture that how we are structurally going process by process and asking a question, why can AI not be deployed in these processes rather than why it can be deployed.

The most important dimension, I'm on Panel 12 is we'll start to deploy agentic platforms from an architecture and road map standpoint. In FY27, we expect to deploy 600-plus autonomous agents and across operations, DMS, HR, technology and risk. That's really on AI. We can take more questions. I don't want to take more time talking about it.

Let me just quickly go to full year performance. That's Panel 20. At a core-to-core level, it was a strong year for the company across all key metrics. And I think I'm reasonably confident that we are getting back into a strong growth momentum across all key metrics as a firm. We crossed 2 milestones, as I said, INR 5 lakh crores AUM and 50 million new loans. The year so far has started off pretty well. It's likely for the first time, we've never done 5 million loans in a month.

I mean, while the West Asia conflict is going on one hand, when we look at the consumer momentum on the ground, it's very likely we'll cross 5 million-plus loans in the month. Our last peak was 4.6-odd million loans, and that was in festival period. So clearly, the company continues to generate momentum.

Overall, last year, we booked 52.5 million loans and added 17.5 million new customers on a full year basis. AUM, I talked about grew 22%. PAT grew 24%, ROA, and opex to NTI I talked about it, showed an improvement of 36 basis points despite rapid expansion of gold loan branches, reasonable expansion of MFI branches by the firm last year.

So that's really on the full year performance. You guys anyway track it, so I don't have to cover that. Let me cover what is important as to how do we see the outlook to be. Just on the previous year gone by, the Board of Directors have recommended a dividend to shareholders of INR 6 per equity share.

So that's a 600% dividend. It's broadly in line with the dividend last year as we had outlined that part of the dilution that we do in BHFL will be shared with the shareholders. So, we've in that spirit, continue to stay on course of that as well. So that's really last year. Let me now go to important panel as to how do we see the management assessment to be from a next fiscal standpoint.

As I said, the year so far seems to have started pretty well. We are well on course to cross 5 million loans in a single month as a firm. I'm on Panel 28. Of course, I must just flag that the FY27 assessment is based on expectations of easing geopolitical tensions and macro stability. That -- I'm sure, it's understood, but I thought it's important I make the point yet again that it's contingent upon easing geopolitical tensions and macro stability.

Subject to that, the first point is on transformation making the business AI ready. I have already talked about it. We will see significant acceleration and deployment of AI use cases across revenue, cost, customer engagement, underwriting, controllership, security as a firm. In terms of customer franchise, we continue to be confident of adding 15 - 17 million new customers in FY27.

In terms of AUM, we're confident of a 20% to 24% AUM growth, aided by new businesses that we've launched in the last few years as they begin to scale. Even last year, they contributed 3% of the total growth. Rather 3.5% of total growth even in the previous fiscal. And as we gain greater confidence, our market share in those businesses and their contribution to the business should grow.

NIM, we expect marginal moderation. It's a little bit contingent on how interest rates play out, caused by geopolitical tensions. On opex to NTI, we expect to see continued improvement of 25 to 40 basis points from current levels. On credit cost,

this is a new credit cost metric, which, as I said we just reported a 165 basis points or 1.65% credit cost to AUM, the revised metric.

We expect this to continue to trend down. The reasons I talked about earlier, which is winding down of 2-wheeler portfolio and in the MSME business being out of the woods by June'26. In terms of profitability, we are pretty optimistic about the profit growth. ROA came in as of fourth quarter at 4.6%. We continue to guide for 4.4% to 4.6%.

Return on equity came in at 20% in the current quarter, we continue to guide for 19% to 20%. And GNPA and NNPA, we expect them to remain range bound and well within our long-term guidance. I think that's really all I have to cover. Just quickly on BHFL, company has already reported its performance.

They had a good quarter on disbursements, AUM, asset quality, opex and profit, their disbursements and AUM growth remained strong at 23%. Their loan approvals are up a record 37%, opex to NTI continued to improve for them, came in at 19.2% as against 21.8%. I'm sure Atul has shared what his long-term view on where he foresees opex to NTI to get to, to be a pre-eminent mortgage company in this country.

PBT for them in Q4 grew by 20% and PAT excluding onetime reversals, grew by 20% and asset quality continue to remain very, very healthy with GNPA and NNPA at 27 and 11 basis points respectively. BFSL though small, continues to grow, delivered a 77% growth in AUM and their profits were up 50%.

We added 124,000 new customers in Q4 and delivered an ROE of 10.5%. So that's really on BFL Q4 and its subsidiaries, the management guidance for FY27. Just the last point, which I did not cover, I should have covered in terms of portfolio quality across Panel 70 onwards, continue to all be in green are seeing sequential improvements across all portfolios.

Only business loan and professional loans is yellow, which I've articulated twice over the last 20 minutes on how we foresee that this should turn. This will not turn green in a quarter because the denominator also has a role to play as it starts to grow by Q2 or Q3, we will start to see this turn to green. That's really the quarter gone by, year gone by and our guidance or management assessment for next year. We are happy to take questions with management.

Moderator:

Thank you very much. We will now begin with the question and answer session. The first question is from the line of Abhishek Murarka from HSBC. Please go ahead.

Abhishek Murarka:

Hi, Rajeev, hi Sandeep. Thanks for taking my question. So just to get this whole guidance of credit costs very clear, if you don't mind, can I refer to the press release where you've given a summary of consolidated financial results?

- Rajeev Jain:** Please.
- Abhishek Murarka:** Yes, so there, your number is gross loan provisions of INR 2,126 crores and then INR 260 crores of recovery. So the net loan provision is INR 1,866 crores. That INR 1,866 crores works out to 165 bps in 4Q. And against that, you're guiding for 145 to 160 bps next year, full year. Is that the right understanding? Yes, that is perfect, right?
- Rajeev Jain:** Yes.
- Abhishek Murarka:** And just the annual number, INR 7,934 that works out to 175. So on an annual basis, 175 goes down to 145 to 160?
- Rajeev Jain:** That's perfect.
- Abhishek Murarka:** Perfect. Okay. So now in this 145 to 160, as you said this takes into account the de-escalation of geopolitical issues. So here, you have not accounted for any kind of adverse impact of this geopolitical issues, right?
- Rajeev Jain:** No.
- Abhishek Murarka:** If anything comes up second half or something, then this may go up depending on how things play out in?
- Rajeev Jain:** Yes. The important point, however, you finish Abhishek?
- Abhishek Murarka:** No. That is it. Please go ahead.
- Rajeev Jain:** I would just say the more important point or a meta point in this is we are entering the year on credit costs with tailwinds. Headwind over headwind virtually would consume twice the fuel. Thankfully, we are entering the year with tailwinds. We have momentum. We can navigate even if the environment weakens. I think that's how I am looking at the business at this point in time.
- Sandeep Jain:** So I think what Rajeev is trying to say is some level of conservatism in terms of doing the number crunching and giving a guidance of 145 to 160 has been done. We have to wait and see how situation evolves eventually.
- Rajeev Jain:** No, I'm also making a point that we have tailwinds on credit cost. We don't have headwinds. So that itself is a big help.
- Moderator:** Thank you. Abhishek, I will request you to come back for a follow-up question. Next question is from the line of Shreya Shivani from Nomura. Please go ahead.
- Shreya Shivani:** Yes. Thank you for the opportunity. My question is on the long-term guidance of ROA probably inching towards 4.3 - 4.7 percentage. I mean for FY27, I understand you've given the explanation on opex and probably that will be the bigger driver.

But if you can help us get into the details of this 4.3 to 4.7 over the longer term that you've spoken about?

Also for FY27, as per the, the basic math that I was picking up, you may need a little bit more NIM expansion to achieve the ROA guidance for FY27. Is my understanding correct or not? Please let us know. Yes.

Rajeev Jain: Sorry, just repeat the last point.

Shreya Shivani: So for FY27 also, as per my math, you will need a NIM expansion also or at least a NIM stable flat NIM or an expanding NIM to achieve the ROA guidance for FY27?

Rajeev Jain: Yes. Okay. Got it. See, the answer is to the second part is, no. See, look, if you go back to -- if you go to Panel 35, which is a 19-year long snapshot, feels like -- doesn't feel like that long actually, 19 years. If you see since FY20, forget FY21, but even if you take FY18, '19, 4.2%, 4.1%, FY22, 4.2%, FY23, 5.3%, 5.1%, 4.6%, 4.3%.

I think numbers speak for themselves. I'll add a dimension of ROE. ROE guidance of 20 to 22 last 6 years, adjusted for COVID speaks for themselves and during this period, as you can see from a balance sheet standpoint, the balance sheet moved from INR115,000 crores to now INR510,000 crores.

So it should give you confidence that we can continue to sustain the ROA, at times by expanding margins, at times by reducing cost, at times by reducing credit cost. These are the 3 principal levers either 4 levers rather, growth, margin expansion, operating expense and credit costs, depending on how -- what the environment is, what is the state of the business. We orchestrate these 4 to deliver an outcome of 4.3% to 4.7% ROA and 20% to 22% ROE to investors on a long-term basis.

Sandeep Jain: Yes. And just to help you with the math on 4.6%, the guidance metric for the next year on ROA. And that's the reason why Rajeev when he presented the financial statement and numbers, he said, look at the core financial performance. If you look at core financial performance for last year, the ROA came in at 4.6%. And the guidance that we are giving for next year is 4.4% to 4.6%.

I don't think that there will be a need for NIM expansion in the next year to be able to deliver that. We have to ensure that we grow nicely, which is where the 22% to 24% guidance has been given. And we have to ensure that we remain reasonably anchored on the operating performance of the company, which is opex to NTI as a metric and loan loss to credit -- loan loss to average AR. As we deliver that, I think there is enough and more headroom available in the ROA profile of the company.

Moderator: Thank you very much. Next question is from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah:

Yes. So on the growth guidance, 22% to 24% apart from SME, which is almost bottomed out, we have started to see the sequential growth and we will get into double digits. Ex of that when we and the newer businesses, where do we see we would be able to grow at a pace faster than the overall AUM growth? And which segments do you still believe could continue to lag, so particularly on our core segments as well. If you can highlight that, that would be helpful? Yes.

Sandeep Jain:

Yes. So Kunal, the idea would be to maintain the portfolio mix. I think that's very, very dear to us. That gives us the right balance of risk and profitability. So that's going to be the agenda for next year as well. Having said so, I think when you look at current year number of 22.4% of AUM growth, this is impacted by two things: one, the captive 2-wheeler 3-wheeler financing business has seen an attrition of 60%. That's almost INR6,500 crores of attrition that we have recorded in the current year on account of winding down of captive business. That's one.

Second, MSME, the growth used to be 25%, 28%, 30%, has been brought down to 6%. These 2 business, one, the impact of captive dial down will be much, much lesser in the next year. MSME should start to come back into some growth momentum to double-digit number from second half onwards. These 2 things should provide tailwind on the overall growth number.

Having said so, there are a few businesses which are in nature, like gold loan financing, tractors, CV and so on and so forth. They may grow faster than rest of the business because of very, very low base. Of course, gold is not -- no longer a low base it's INR18,000 crores in the balance sheet. But given that we are taking a growth stance in that business of doubling down on our branch presence in that business in the next year, we are reasonably hopeful that, that should lead the overall growth profile of the company for the next year as well.

And Rajeev did make a point that the current contribution of gold loan is about 3.5% of the balance sheet. All goes well, which should start to look towards 5% kind of number in the next year as well. So these are some of the business where we see there could be an additional growth potential. Having said so, we find secular growth opportunity across all businesses, and our market share in most of the businesses continues to remain small, allowing us significant headroom for growth perspective.

Rajeev Jain:

Just the last point I'll make, Kunal, if you plot Panel 63 of composition of our balance sheet over a period of even last 5 years, you will not see material movement at all actually. So you will see very little movement. Number one, the base of each one of them is very large. I mean there are moments like gold loans that come once in a while. Otherwise, you will see a reasonable secular growth and a reasonably diversified portfolio.

Moderator: Thank you. Next question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Yes, hi, team. Congrats on the really strong set of numbers. I'll try to squeeze in two questions, if you don't mind. Firstly, can you just share some portfolio cuts or what you're seeing in the environment that gives you the confidence to pick up on MSME growth? That's my first question. Second question is in new consumer products like car loans, gold loans, etcetera, how many -- like what percentage of our business comes from existing customers and how many from new customers?

Rajeev Jain: Yes. So Piran, if you recall, in Q3, I made a point that I'm not necessarily a very big believer in macro. We are a micro business. You'll find it in transcript of last quarter. At a design level, MSME is a very, very large sector. You just have to pick what you can digest from a risk standpoint. And that's really what we're doing.

Even at this point of time, as we speak, based on our assessment, we have pruned business INR100-odd crores. We monthly do around -- we used to do INR1,800 crores. We brought it down to INR1,400 crores. We have further taken cuts in the current month based on our understanding.

But as I mentioned, the guidance next year is based on stabilized -- stable environment and geopolitical environment and macro stability. We are very clear about from a micro standpoint, from a location, businesses and underwriting as to what will deliver growth. So I think that's just first part of your -- the answer to your MSME point. And it's a reasonable takeaway for us that our business is -- we know, but that you always remember our business is micro, not macro. I think that's point one. The second point you had asked on.

Sandeep Jain: Contribution of new -- existing customers for new business.

Rajeev Jain: For new businesses, it's a metric that we drive. So let's say, if you take 2-wheeler as an example, okay? It's a new business, 3 years old, the open architecture 2-wheeler business. The new customer performs better than -- sorry, ETV performs significantly better than NTB. 50% of the 2-wheeler customers that we bring to the table is an ETV customer.

Between 43% to 45% of new car financing customers that we bring to the table every month, that's a INR450-odd crores of -- INR450 crores to INR500 crores of volumes we do every month comes from ETV. As I shared as part of our annual investor outlook, the 5-year outlook that business by business, the 120 million franchise, principally has very high wallet share across each line of business that we are in. I gave an example of new car finance.

New car finance and used car finance, 35% of all new car finance and used car finance as per bureau data principally comes from this 120 million customers,

okay? Personal loan, our market share is between 8.5% and 9%. At the India level, the number is 40% -- 45% of personal loans takers in India come from our 120 million franchise.

So I can go on business by business. Risk and wallet and operating leverage, all 3 require us to focus on this metric across all our 32 lines of businesses. And we track it very diligently and ensure that we deliver the mix that we have planned for.

Moderator: Next question is from the line of Kuntal Shah from Oaklane Capital.

Kuntal Shah: I have 2 questions. One is what kind of capex or investment we are going into AI infra? Can you give some color and what kind of ROI and payback you are envisaging? And secondly is when it will start impacting the P&L via either cost saving or some kind of faster turnaround or whatever the metrics you are taking...?

Rajeev Jain: Kuntal, yes, so benefits, as I said, consumers and employees both should experience in the current year what AI does for them. So that's one part. As I said, SMS or bots being the simplest example. Walking into 3,000 stores or 2,700 across branch -- gold loan branches, customer service branches and in-stores, we will deploy close to 2,700 cameras, customer identification, reduce friction, which means faster turnaround, which means lower cost. I mean, so better customer experience on one side and lower cost on the other.

AI call center agent is one-third of the cost, straight. That's the -- so we, at a point in time, had 5,000 outbound voice agents. That number itself, we have brought down, step number one in terms of optimization. And two, 30% of them are now AI voice agents. That's one-third of the cost, straight, line by line. Now in terms of overall capex, first question to Sandeep, is do we publish capex, or we don't?

Sandeep Jain: We don't.

Rajeev Jain: We don't. Otherwise, it will become a new added metric. And we anyway publish hundreds of metrics, one more metric will get added. So please excuse us on that. But we are not -- but let me make a point. We are not pulling back any stops in investing whatever it takes in being front of the seat and center.

I talked about the talent expansion. It's not easy to get AI talent. Principally, there's no concept of AI talent. These are existing machine learning folks who are actually being trained. They're training themselves, and we are helping them with use cases to convert into AI researchers or AI talent. That's really what we're doing.

What they need is compute, which is not that easily available. What they need is sponsorship, which is not that easily available and what they need is use cases, which is not that easily available. We are delivering those 3 to them.

So I think overall, I would say -- and I'll hand it over to Anurag for a moment, he's jumping to speak that it is probably one of the most exciting part of the work that we're doing after a long, long time. So I'll just now hand over to Anurag for him to expand on it.

Anurag Chottani: Yes Kuntal, Rajeev covered a lot of use cases. I must also say, we are parallelly investing deeply on the security and the compliance infrastructure as well. So you're aware that RBI has released a FREE-AI framework. So we have consumed and we are in process of implementing the explainability, auditability and the transparency what the FREE-AI report talks about. And parallelly, a lot of investments going into the security architecture as well apart from building the new set of capabilities, what Rajeev talked about it.

Rajeev Jain: You will experience, Kuntal, as consumers, on the app very soon, AI summaries will start to appear because there is 120,000 Figma's that we've created over the last 5 years. They need summarization, if you simplify the conversation. So just give us 3, 4 months and you'll start to see very soon -- we have 71,000 employees. So far, we used to train using PPTs. I spent 33 years working. They'll all transitioning by end of May to Copilots. They'll all use Copilots for -- which is NLP-based infrastructure to get trained. So that's the level of transformation process by process that we are actually in the process of implementing. We are not planning. We are in the process of implementing.

Anurag Chottani: And just as an added point. Last year, we processed -- on peak of Diwali on a single day, we processed like 600,000 loans, which without AI, we were like 100,000 loans -- we had capacity to process only 100,000 loans on a single day. So you might see next Diwali, like we'll process close to 1 million loan accounts on a single day as against the numbers that I just mentioned.

Moderator: Next question is from the line of Viral Shah from IIFL Capital.

Viral Shah: I have 2 questions more connected to each other. So first thing is when I look at the PCR coverage across Stage 1 and 2, especially, I think even versus the last quarter, you have further shored it up in this quarter. And correct me if I'm wrong, now this is basically at almost highest levels that we have seen in our history barring the COVID periods.

Do you -- like over here, is there any cushion that has been built up and through the course of next year, you will see some of that unwinding basically, or does your PCR levels remain over here next year or does it reduce?

And the connected question to this is the credit cost guidance, Rajeev, you mentioned basically of 1.45% to 1.6%. Does this -- the change versus 165 to 175 basis points in the last quarter you guided for FY27, is this purely because of the change in the presentation of the recoveries?

Rajeev Jain: No. No.

Sandeep Jain: So I think your assessment is correct versus 165 to 175 that Rajeev -- that becomes 145 to 170 because of the change in the presentation. Your assessment is correct on that. As regard the ECL provisioning across Stage 1, Stage 2, Stage 3, this is a bottoms-up exercise that we do every year. We are moving from yearly exercise to quarterly exercise. These are bottoms-up calculation done by product, where we are ensuring that we remain true to the model.

The idea is to focus on resiliency of the balance sheet and the provision coverage ratio. I have reason to believe the numbers should remain in this corridor. We get opportunity, we will further up the NPA on provision coverage ratio to ensure that we are bullet proofing the balance sheet from any kind of potential impact that one could witness maybe 3, 5, 7, 10 years down the line.

So resiliency and bullet proofing of the balance sheet are the 2 most important parameters that we also look at when we do a complete remodeling of ECL. All the places where we can identify items for making more provisions to credit cushioning, we do keep doing those activities.

Moderator: Next question is from the line of Shubhranshu Mishra from PhillipCapital.

Shubhranshu Mishra: Two or three questions. The first one is, how do we split the opex into cost of acquisition and cost of collections? What would be these two as a proportion of the opex? Second is in terms of risk management, how many people do we have on rolls for collection? And how many feet on street of the collection agencies we have?

Third is when I do a back calculation basis, our growth and the ROA metric, just a rough calculation, the profit growth would be upwards of 35% versus the 22% AUM growth. Is that a fair assessment? We are looking at 35%, 40% kind of growth levels in profit in FY'27?

Rajeev Jain: Shubhranshu, I need AI for all the 3 questions. They're all 3 different. But on a lighter vein, Sandeep?

Sandeep Jain: Yes. So on the opex side, I think the results sheet carries additional breakups in terms of expenditure that we incur. Of course, the sourcing cost, to the extent it is variable in nature, gets accounted as EIR in the interest income line. So that's not separately identifiable. But the recovery commission and the cost that we incur for collecting money from the customers and doing DMS debt management services is shown as fees and commission expenditure separately in the results sheet. I won't repeat the number, but those numbers are there for everyone to consume.

As regard the profit growth for the next year, 22% to 24% growth in AUM should lead to a little better growth in profitability because if we are supposed to deliver

operating efficiency growth of 25% to 40% that Rajeev has talked about, if we see improvement in -- basis points. If we see improvement in loan loss to average AR as a metric in the next year, even with a marginal moderation that we are talking about from NIM perspective, which is also documented as part of the assessment for next year.

There is a possibility that the P&L growth may be faster for the next year than the balance sheet growth. I don't think that I've done a math internally which suggests a 35% number to me, but I'll be more than happy to be positively surprised if the number were to come. As Rajeev said, we'll probably need AI to be able to deliver that.

Rajeev Jain: But we have tailwinds. I made the point earlier. I would just make a point, Shubhranshu, we have tailwinds subject to geopolitical stability, we should be in good place.

Moderator: Next question is from the line of Omkar from Shree Investments.

Omkar: So in the Investor meet, which you do every year, you have guided that it's not about the question of growth, but how quickly you can compound. So given the state of the current balance sheet size, you have guided for 22% to 24% for the current financial year. But like how does it compare with your overall long-term guidance of around 17% to 19%, 20% kind of growth?

Sandeep Jain: I think the long-term guidance that we give at this point in time is between 22% and 24%, 25% kind of corridor. And based on the current performance that we have delivered and the momentum that we see across businesses, we are reasonably confident that 20% to 24% should be achievable for next year. And I think it's year-by-year, right? So long-term commitment continues to remain to be anchored at 20% plus number '22, '23, '24. For the next year, 22% and 24%, and then build on top of it in the future.

Rajeev Jain: I'll just make a point that, look, for INR100,000 crore addition in balance sheet, the growth in total or market share growth in total credit, if you take the denominator as total credit in India. So gross bank credit plus NBFC credit minus bank lending to NBFC. That's net total credit in India, okay? Our market share would have moved from 225 basis points to 250 basis points. If India total credit grew by 12%, we have grown by 22%, okay?

We should largely be growing 2x. I would say, given our relative market share, not our absolute size, given our relative market share, we should be as a firm aspiring to grow 2x of what the system growth is so that we can meet our ambition to be among the top 5, 6 financial services lenders in this country over a period of next 5 to 7 years' time. So that's the way I would approach this, and we continue to approach it that way.

Absolutely it looks big, INR100,000 crore addition. Market share growth, 25 basis points. So I think there is -- and as I said earlier, the franchise has very large wallet share as we deliver on customer centricity that I talked about in our Annual Investor conference on our Annual Investor Day, we are investing very deep on customer centricity, Overlay on that AI transformation.

Take customer centricity and AI transformation, the compounding should become easier, I would say, okay? Actually, I would say it will become easier rather than harder. The absolute size makes it look harder. But as we take the customer centricity, which is focused on customer wallet and AI transformation, we are doing all this to make compounding easier. The principal compounding to me is what is the return on equity.

I think we continue to hold at a INR100 invested in us, principally generates a 20%, 22%, INR22, fixed deposits give you 7%, we are giving you INR20. And we are giving that for the last 10, 11 years. And we believe that we can continue to compound shareholder value in terms of return on equity for a long, long period of time.

Moderator:

Next question is from the line of Bharat Shah from BCS Capital Ideas.

Bharat Shah:

Delighted to see the good results. I just had one broad question. If we see the evolution of Bajaj Finance and if we see the period prior to COVID, and I draw distinction for the period after COVID. So generally out of the 4 levers, the growth of the assets, the margin, the cost intensity or cost diminution and the credit cost, these 4 levers leading to ROA and in terms degrading leading to ROE.

So if I see prior to COVID generally every element plays like a good nod in the overall symphony and therefore there was a rising crescendo. Typically, the yields and cost of the funds were managed to give typically a good or rising kind of NIM. The growth has always been very focused and strongly delivered vertical -- by vertically business segment by segment.

And therefore, given good usage of technology we delivered even the cost metrics very efficiently over the period of time. And given our very strong discipline on credit cost management that also played a perfect part to the symphony. Even if there was some one note, out of the 4 notes, which might be playing a little jarring note at a particular point, overall symphony in terms of return on asset and return on equity, typically tended to be buoyant and in our favour.

Post-COVID, that equation has been a little more middling type where generally, the final symphony outcome in form of ROE is still healthy by miles compared to any benchmark anywhere. But compared to our own benchmark, the crescendo has not been rising, but kind of, so to say, undulating one up and down type.

Due to finally with the AI in play with a lot of attenuating factors hopefully behind us. Now are we really poised in a way where all the notes kind of combined together to produce a rising crescendo rather than kind of even or at times falling crescendo that we saw. Instead of that, on a more long-term basis, we are slated for the rising crescendo.

Rajeev Jain:

Okay, your observation is correct. I think first point. Point number two, I think pre-COVID to now, Bharat, company is 4x, INR140,000 crores balance sheet, 3.5x. We are INR510,000 crores. That's point number two. But through this period, the return on assets have grown. Through this period, if you take only 2 measures of return on assets and return on equity have remained and I'm on Panel 35, we were at FY19, 22.5%. We had just raised FY20, 20.2% and we have remained between 19% and 20%. So that's point 2.

Now come to post-COVID. Now COVID was a big shock. Shock led to post, and as an operating manager, I'm speaking, post-COVID, there was a massive boom. That boom we leveraged by principally expanding lines of businesses, expanding locations very rapidly, investing very deep in digital transformation, these 3, expanding in the process teams, high ROA, high ROE, if you have pulled ROE in FY23 went to a peak of 23.5%.

You know, good times lead to what I would call, and I'm being as objective and fair doing my performance assessment of last 5 and pre-COVID, lead to some level of what I would call in boom cycles, you take a set of decisions, which necessarily are, should be more calibrated is how I would respond. I think in the last 18 months, we've calibrated those responses, okay?

And to summarize the point, you should see us from here on in a reasonable cruise mode. Sandeep made a point in the passing. At a design level, I have made that point to various investors that at INR510,000 crores, we are by far the largest. We are a very important player in terms of even overall credit in the country. It's our fiduciary responsibility to ensure we are highly resilient, can take any shocks.

We are, Sandeep made a point on bullet proofing the balance sheet. We will be a bulletproof business. While delivering as a firm a 20%, 22% ROE and a 22% to 24% balance sheet growth. We think that we should be from here on in a lot more cruise mode. So that's really how I would summarize my response, Bharat, to all the way to pre-COVID. I must tell you on a more, in a lighter way, I have management team sitting here, senior members of the management team. I keep reminding them I want to FY20, I want to go back to FY20 credit costs. And they used to laugh at me. Now they are all delivering. The 3 MOB, 6 MOB, 9 MOB lower than FY20.

And as I said, the balance sheet is 3.5x. So I think it's about what we decide to do rather than what happens. I think we will decide what we want to do. We will, last

point I'll make, we are from a, what does resiliency and bullet proofing means that the profit growth principally should be higher than balance sheet growth.

And every incremental dollar of the differential in terms of growth goes to strengthening the balance sheet because we're just living in continuous crisis. I mean, let me spend one moment, 1 year, 3 crisis. We started the year, we all have short memory. We started last year with Indo-Pakistan war for 4 days. We had tariff for 4, 5 months. And we had February, March, full March of Iran-U.S. war.

How does one model that? And we have continued to still be operating manager. We have to remain open for business. So the best way is to just keep bullet proofing the business. It needs tremendous agility, I would say, for all firms, for all operating managers, tremendous agility because this is an environment that we are, we have to all become used to living in. And our management team here, we are committed to do that. I hope that gives you, and we can do a side conversation, longer one.

Moderator: Thank you very much. Ladies and gentlemen, we will take that as the last question. I'll now hand the conference over to Mr. Ajit Kumar for closing comments.

Ajit Kumar: Thank you, Rajeev, Sandeep and Bajaj Finance team. Do you want to make any closing comments before you conclude?

Rajeev Jain: No. Thank you is the only closing comment.

Sandeep Jain: Thank you.

Rajeev Jain: Thank you. Wish us luck. Wish the world luck. Thank you. Thank you all.

Moderator: Thank you very much. On behalf of JM Financial Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.