"Bajaj Finance Limited Q4 FY '23 Earnings Conference Call"

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

MODERATOR: **MR. SAMEER BHISE – JM FINANCIAL LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Bajaj Finance Limited Q4 FY '23 Earnings Conference Call, hosted by JM Financial. 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 touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sameer Bhise from JM Financial. Thank you, and over to you, sir.

Sameer Bhise: Thank you, Neerav. Good evening, everyone, and welcome to the 4Q FY '23 Earnings Conference Call of Bajaj Finance Limited. First of all, I would like to thank the management of Bajaj Finance for giving us the opportunity to host this call. From the management team, we have Mr. Rajeev Jain, Managing Director, Bajaj Finance, Mr. Sandeep Jain, Chief Financial Officer of Bajaj Finance, and the entire senior management team of Bajaj Finance and its subsidiary.

Without much ado, I would want to hand over this floor to Mr. Rajeev Jain for his opening comments. Over to you, sir. Thank you.

Rajeev Jain: Thank you Sameer. Thank you JM for hosting this. Very good evening to all of you. I have a set of my colleagues here. A good evening from them as well. I'll essentially be taking you through very quickly over the next 15 minutes through the investor deck, which we've uploaded on the Investor section of the website and also filed with BSE and NSE.

So let's just quickly jump over to the investor deck. Let's jump over to Panel number 4 quickly. Quarterly, I would say, excellent quarter across all financial and portfolio metrics. We delivered INR16,500 crores of core AUM growth. We added a tad below 3.1 million new customers to the franchise in Q4. All products and services are now live on web and app platform, which is really what the work that we've been at over the last 2.5 years.

App platform alone has 35.5 million net users. We had gross installs of 54-odd million last year. And as of 31 March, the net installs are 35.5 million. We are amongst the largest -- global largest in the finance place on Google Play store among the top 4 organic downloads in the world. So I think that's been the effort that's been made by the company to fully go digital. In terms of financial metrics, core AUM grew 29% to INR2,47,000 crores, opex-to-NIM last quarter came in at 34.1%, very close, again came in at 34.1%. PAT, it's ever high PAT of INR3,158 crores, growth of 30% in Q4.

ROE just a tad below 24% at 23.94%. Gross NPA, it's the lowest ever in the history of the company. I mean, and if you adjust this to 180 days past due and so on and so forth, I think these numbers are ever low numbers. Net NPA came in at 34 basis points ending March '23. Very quickly on full year, given that it is the fourth quarter, excellent year overall across all financial and portfolio metrics. We delivered core AUM growth of INR55,292 crores. We have guided for INR52,000 crores to INR53,000 crores of AUM growth in the beginning of the year. Now we disbursed 29.6 million loans. We added 11.6 million new customers to the franchise, the highest ever customer addition that we've actually done ever as a company. As earlier mentioned, fully live on app and web, 35.5 million consumers on the app platform.

Overall, in general, given the exit momentum of AUM growth, robust portfolio metrics, as you will see, as I take you through and a highly scalable digital stack, we are pretty confident about growth and portfolio metrics for FY '24. In terms of core AUM growth, full year, I talked about 29%, opex-to-NIM full year came in at 35.1%. PAT came in at INR11,508 crores, a growth 64%. ROE full year came in at 23.46%; and net NPA, of course, as of March 31, is at 34 basis points.

Let's just quickly jump to some key points on Panel 5. Overall, B2B disbursements were up 21%. You're seeing data coming through on how mobile phones are de-growing by 20%, how shipments are going down and mind you out of B2B disbursements that we do anywhere between 40% and 45%, maybe a little more are essentially digital products or mobile phones. In that environment, growing 21%, I would say, demonstrates strength of the franchise and the distribution. So far, as you look at having entered the year, so far, April, we are tracking reasonably strong.

In terms of customer franchise, I talked about 3.09 million customers. We're reasonably confident we should be able to add 11 million to 12 million new customers in FY '24 as well. Depending on how the first half goes, we'll see if there is an upside to that. Overall customer franchise stood at 69.14 million. Cross-sell franchise for the first time crossed 40 million at 40.56 million. We added 19 locations to -- and ended the year at 3,733 locations. Overall, in the year, we added 230 new locations. We are adding -- most of my location footprint is front loaded. So we are adding 150-odd new locations and over 300 stand-alone gold loan branches in Q1 alone as we traverse through Q1. The liquidity buffer pretty strong at just a tad below INR12,000 crores.

Important point on Panel 7, NII grew 28%. Opex-to-NIM came in at 34.1%, Q4 FY'22 was 34.5%. So continues its downward trajectory. We had articulated last year was 34.5%. We continue to invest, investing in social and rewards as two key platforms. Rewards will go live sometime between Q3 and Q4. Social will go live sometime in Q1 FY '25. Employee head count stood at 43,147. In terms of credit cost, fully normalized loan losses and provisions now in terms of -- came in at under INR860 crores. We continue to hold management overlay of INR960-odd crores. GNPA, as I said, came in at lowest ever at 94 basis points, net NPA 34 basis points.

All portfolios, across 11 portfolios that we publish are all green, including our auto finance portfolio, which is -- despite not being an ever-high AUM, peak AUM was INR15,500 crores. It's still a tad below INR13,000 crores, 93.28% of the portfolio is current. I have not seen that number in the last 16 years. Peak number used to be 89%, 90% only.

In terms of profitability on Panel 8 very quickly, capital adequacy remains quite strong. ROE I talked about. ROA in Q4 came in just 3 basis points, if I'm not mistaken, below Q3. So Q3 was 5.43%, Q4 has come in at 5.4%. Capital adequacy pretty strong, both BHFL and BFL remain very well capitalized from a Tier 1 capital standpoint. Tier 1 capital was -- for BFL was 23.2%. BHFL had a very good quarter. Overall, AUM is up 30%, just at INR69,228 crores. Home loans grew 24%. You're all watching how there is a slowing growth in the home loan industry, given the two years of rapid growth, the loan against property grew 4%, LRD grew 64% and developer finance grew by 92% albeit on a lower base.

And as you see below, the DF book is essentially 9% of the book. DF book from a model standpoint in terms of portfolio composition as I've said in the past, when we model our business on leading companies, principally we'll anchor around between 12% and 14%. That's really where it will quote unquote get capped at from a portfolio composition standpoint and 60% anyway has to be a home loan model as part of our principal business criteria as outlined by NHB. Overall approvals in Q4 grew by 21% for BHFL.

Very quickly, operating efficiencies. Net interest income for BHFL grew 40%. Opex-to-NII stood at 26.5% versus a year ago of 32.5%. GNPA, NNPA, they continue to play their role in ensuring from a sum of parts strategy standpoint that we continue to deliver rock-solid asset quality at 22 basis points at INR70,000 crores, as you can see. Actually, an 8 basis points is one of the lowest in the industry, if not the lowest in the industry.

Panel 10, just single point, for BHFL, profit before tax grew 52%, profit after tax grew by 53% to INR302 crores in the quarter gone by. Bajaj Financial Securities, not a material subsidiary at this point in time. We continue to invest in building out the HNI Broking business, continue to building out, launching new app features, we added 42,000 customers and overall franchise crossed 0.5 million mark.

Let's quickly jump to -- on a full year basis very quickly given it is fourth quarter. I talked about on Panel 12, core AUM up 29%. New loans I talked about, on a full year basis, grew 20% to 29.6 million. Customer franchise also grew 20% to 69 million. Net interest income, I talked about, grew 32%. The Board of Directors at the meeting that just concluded today have recommended a dividend of INR30 per equity share and 1,500% dividend for FY '23 amounts to 17.65% of standalone profit for FY '23 and is completely in line with the company's dividend distribution policy that's been outlined and improved. So the company has recommended, Board of Directors have recommended a dividend of INR30 per equity share of 1,500%.

Very quickly on to Panel 15, an important point. I mean, we've gone -- this is some of the omnipresence strategy update. App platform has fully gone digital across all products and services. It's going live in a staggered release manner. Some people may be able to see some of them, some will not be able to see. It's just going live on Android and based on the staggered methodology should fully happen by 30th of April at 50%. 50% would be live by 30th of April and by 15th of May, should have gone live 100%. Web=App, we are on track. At a design level, what is visible in app, will be visible fully in web by 29th of April.

We published a set of metrics last year from App platform standpoint to demonstrate that how important and strategic it is for our business going digital. The same thing from Q2 onwards, we will do for Web as well. We'll publish a set of Web metrics that we'll start to populate every quarter from Q2 onwards, we will just wait for the platform to stabilize in Q1 and start to publish the metrics from Q2. Going forward, all features that go live on app will also go live on web on the same day that it goes in app. That was really the original objective as we outlined in December '21, when we talked about App=Web strategy.

Payments, lots of action in payments, scalable UPI infrastructure has gone live on consumer app platform. It's scaling pretty well. Will help improve performance significantly, I would say, new features like Contact Mapper capability, UPI Autopay functionality is going live. iOS will go live in end of April as well. In Q1, lots of action continues to happen. We continue to invest in the payments business, a new payment CLP, refer and earn functionality, faster settlement for merchants is going live. Checkout page on PG providers will start to become visible. Bajaj Pay Wallet will start to become visible on checkout page of leading payment gateway providers.

QR deployment, I think we went live with merchant QR in November. We started to accelerate QR deployment from December onwards. I think company has made massive strides on QR deployment. In the last quarter alone, we deployed 413,000 merchant QR. We estimate based on various reports that India has 31 - 32 million overall merchant QR. We principally think anywhere between 2.1 million to 2.5 million merchant QR of Bajaj Pay we will deploy in FY '24. So we are accelerating the deployment of QR. That's really the goal of FY '24 for us as a company. We'll start to complete the stack further. The Bajaj Pay EDC machines will also go live in Q1 FY '24 with features like merchant onboarding. These are benchmark metrics or features that will start to go live.

There's MVP1 going live in June and MVP2 going live in September. Between these two, we should have a reasonably well benchmarked products. It'll start with existing distribution partners and will go open architecture fully by September, October. And we're quite excited about taking the entire stack of payments having worked on this for the last two years to our merchant ecosystem of 133,000 merchants and also to open architecture.

Very quickly, these are some of the metrics on 17, 18, nothing -- I mean, we're largely green on most of the metrics over Panel 17, 18 that you can observe. Panel 19 is an important panel. This is a panel that we started to publish on customer franchise, key financial metrics because at the end of the day, the franchise is growing, is it leading to AUM per customer franchise is growing or not. And is the PAT per cross-sell franchise growing or not. We've delivered a record number. As you can see, these are seven-year numbers right here from FY '17 to FY '23 from INR1,670 per cross-sell franchise profit, we ended the year at INR2,837.

As you can see, '17, '18, '19, they were normal years. Even '20 was a normal year, barring last end, even on those four years, since then, we are principally looking at just a 70%, 80% growth in profit per customer franchise. And AUM per customer franchise has remained pretty steady. We don't expect any change in this metric to happen. We should continue to deliver better outcomes as we go from here.

Let's quickly jump to Panel 37. This is financials, 29% core assets under management growth, total income grew 32%. Net interest income grew 28%. Operating expenses grew 27%. Loan losses grew 22% and profits grew 31%. So we've started to now largely look at a normalized frame of 28%, 27% -- loan losses growing 22% and profits growing 30%. On a full year basis, core assets grew 29%, total income grew 31%, NIM grew 32%, loan losses de-grew 34%. And as a result, profits grew 64%. The ratios are here below. I've talked about on a full year basis, ROE came in at 5.31%. And operating expenses to net interest income came in at 35.1%. ROE came in at 23.5%, as I mentioned earlier.

Let's quickly jump to cross-sell franchise Panel 48. 40.5 million customers. You can see below, we started Q1 with 2.73 million customers, went to 2.61 million, went to 3.14 million. And normally, Q1 and Q3 are peak quarters. That's really how we observed over many years now, at least in the last four years, five years. So in a way, we were just a tad below Q3, which is normally a peak quarter and came in at 3.1 million new customers added to the franchise in Q4. So gives us reasonable confidence that we can maintain a 11 million to 12 million customer franchise growth in -- I mean, I do dream of a day when someday we'll have 100 million consumers -- customers for us as a company sometime in the near term.

Let's quickly jump to Panel 52. This is the AUM mix. Identical, that's one word for it. Two-wheeler, three-wheeler 5% a year ago, 5%; urban sales finance, 8%, 7%; urban B2C, 20%, 20%; rural, 2%, 2%; 8%, 8%; 13%, 14%. And loan against securities is 7%, but that 2% as you -- that's where the difference between core and otherwise is, which as a residual number is at 6%.

Commercial lending is 7% and mortgages at 31%. We don't expect, as I've said multiple times, we don't expect this product mix to change in any given manner. And we think we can continue to comfortably grow while maintaining this mix plus-minus 1%. 2% will be a big number given our size of the balance sheet, 1% plus-minus is possible.

Just last panel in terms of provisioning coverage, Panel 55, overall GNPA, two-wheeler is now around to 4.79%. Rest of the numbers are all in -- SME lending, you see 1.24%. Rest are all below 1%. In terms of net NPA, two-wheeler, three-wheeler finance, 2.43%; and rest are sub-25 basis points, as you can see. And that's how we came in at 94 basis points and 34 basis points from a year ago, which was 1.6% and 68 basis points to 94 basis points and 34 basis points.

So overall, in a pretty strong position from a portfolio quality standpoint, just last panel on stage-wise ECL. I mean, as you can see here, there's -- as of 31st of March, we are around 64% PCR on Stage 3, on Stage 2 at 31%, as you can see, and Stage 1 is at 80 basis points. So pretty well positioned and strongly placed. That is really the quarter. On portfolio metrics, nothing to talk about, they're all at what I would call ever-high numbers. So -- or ever-best numbers that I've seen in a long, long time. So that's the quarter gone by.

Happy to take questions between me and the management team.

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

Kunal Shah: So couple of questions. Firstly, with respect to the entire penal charges, digital document which came from RBI. So what is the kind of impact in terms of how we see capitalization of charges happening? And how much could be, like say, the proportion of penal interest versus penal charges for us?

Sandeep Jain: Yes. So Kunal, first things first, we don't capitalize charges into the loan account of the customer. So we are largely unimpacted by the RBI regulation. Of course, it is in draft form at this point in time, we will await final guidelines from RBI. That's one.

Second, I think the bigger consideration that is coming out in the guideline is that, is the charges being considered for profiteering. Very clearly, the penal and bounce charges that we get from the customers are lower than the commission or recovery costs that we incur for collecting the EMI. This is not for profiteering. The charges that we collect are basically to take care of the cost that we incur for collecting the installments.

Rajeev Jain: We also benchmark these fees and charges with regard to the industry on an ongoing basis and adjust them suitably if you find any areas of improvement or opportunity.

Kunal Shah: Okay. And maybe it should not be limited by the penal interest. So that definitely is not there -- as far as this is concerned.

Sandeep Jain: That's correct.

Kunal Shah: Okay. And overall in terms of the penal charges within the other income, what could be the overall proportion of it? If you can quantify that?

Sandeep Jain: Yes, Kunal, we do disclose as part of the annual report, the breakup of fees and charges into service admin charges, distribution income, fees and value-add service. The service admin charges or a decent contribution of service and admin fees is from penal and bounce charges.

Kunal Shah: Okay. So this service and admin, it should be largely the penal charges?

Sandeep Jain: Yes. A large portion of that would be penal and bounce charges, that's correct.

Rajeev Jain: But mind you Kunal, we were saying, it is corresponding number and recovery commission that's sitting in the expenses line. That's the point he was earlier making and both are published.

Kunal Shah: Okay. And secondly, Rajeev, maybe compared to last time in terms of indicating with respect to competitive intensity as well as focus on margins vis-a-vis the growth we don't see that commentary this time added. So anything which you are seeing at the ground level, or are we more confident in terms of say growth going forward? How should we look at that, yes?

Rajeev Jain: India banking is now retail banking. So principally, then everybody is competing with everybody. So then what is there to talk about competitive intensity. That's why I removed it. So your observation is correct. I mean, if wholesale is growing at 5%, then the only thing that's growing is retail. So that's one part. Overall, in general, when I'm looking at the bureau data in terms of disbursements, overall consumer credit growth metrics are looking very, very strong. So as I said, India credit market is increasingly looking more-and-more retail. So those with the franchise, those who understand risk, and those who have the products to sell to consumers, and those who can keep them engaged through various digital channels should win. I think that's principally the orientation.

The only point I would make, when I look at the overall unsecured AUM, overall engine, we think our market share is between 7% and 8%. The opportunity remains pretty large. But given the rapid growth of personal loan disbursement by a host of players who've not seen a cycle, I worry a little bit about it because I never want to forget that PL principally is a risk business, and it's not a balance sheet business. It is principally a risk business. So that's the only other additional observation point I would make.

So growth is strong. Momentum is good, strong across product lines, India banking is mostly retail and unsecured is growing probably the fastest. I'm not talking credit cards here. I am talking unsecured PL here. So I would just worry about, because those who've seen cycles are probably, would be more mature about it than others. You won't see that sentence anymore until such time just on a lighter vein. Until such time India banking goes back to more balanced mix of retail and wholesale.

Kunal Shah: And margin vis-à-vis growth in terms of balancing that out? So we have sustained it, but…

Rajeev Jain: So you can see Q4, I mean, rates have been going up, given our strong ALM that we've continued to manage as a company and the diversified balance sheet profile. Actually, if you look at full year, there was no impact of interest rate hikes on NIM in FY '23. I think that's a factual point now. Do we expect gradual moderation in margins in FY '24? The answer is yes. But if you assume one more rate hike, we expect NIM moderation of 40 to 50 basis points on a full year basis.

That's really what our -- and this is including one more rate hike. And mind you, part of it will get mitigated if I took an overall P&L view by peaking of opex metrics, best ever credit metrics will partially mitigate that frame as well. So it should overall have low impact on ROA and ROE profile as we get into FY '24 is really how we are seeing things to be.

Kunal Shah: Okay, great. Thanks, and all the best, yes.

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

Dhaval: Yes, hi, Rajeev. Congrats on strong performance. I just had a couple of questions. First was relating to customer acquisition. So I observed that since third quarter, we've seen significant pick-up, especially on physical acquisition because digital, by and large, has been steady around 600,000 mark. So just wanted to understand if we've made any major changes on the risk or any new product which is driving this acquisition engine. If you could just talk a little bit around that. And the outlook for next year, I think you sort of concertedly revised the guidance on customer acquisition as you got confidence on the physical piece. How do you think about the next couple of years in terms of new customer additions? So that's the first question.

Rajeev Jain: No, it's a very fair question. See, in the last 120-odd days, we've looked at capacity planning lot more closely. Of course, geographic expansion happens as it happens. Because as we -- mind you, we've been running through pandemic it's been one action, go forward, one action going back. I think at a design level, that's really how through last three years have been. In the last

120-days, as things started to look up and full normalization seemed to fully revert. I don't mean just in pandemic.

As we started to have greater control over the P&L, we looked at the capacity planning across our businesses, more so in sales finance part of our business and have significantly ramped-up our staffing both at the stores and in terms of people who manage them all the way from 1 to 3,700 cities in India. That's starting to in the last 60, 75 days yield significant results. That's really almost well, Dhaval, we do see -- we should be able to dispense 35-odd million loans in FY '24. That would be a reasonable metric for us to -- which will be a 20% growth. So it's not like -- but we do see that number move.

Dhaval: Got it. And the second question is around sort of income profitabilities?

Rajeev Jain: I talked about it earlier, Dhaval, that we do see some level of moderation. I made that point, right? I mean, we want to protect profitability because at the end of the day, through COVID, that's one of the things that, that protected the company and all its constituents. So we expect NIM moderation of 40, 50 basis points, as I said earlier. But as I've said, opex metrics have already peaked. Opex to NIM is at 34.1%. Should look anywhere between 33.7% to 34% on a full year basis next year. That's really what we are looking at. Credit metrics hold. They are looking strong. So, net impact on ROA and ROE should be reasonably low.

Moderator: Thank you. The next question is from the line of Mahrukh Adajania from Nuvama. Please go ahead.

Mahrukh Adajania: I just had two questions. The first one was that, yesterday Bajaj Auto announced that they had applied for an NBFC license. So, any impact on your business from that? That's the first question.

Rajeev Jain: It's 5% of our balance sheet today, which is essentially captive. You are aware we've started open architecture two-wheeler financing. So, this was announced not yesterday, this was actually announced a year odd ago. Bajaj Auto had also announced then, that they're applying for a NBFC license. I think they have applied for one. So that's also in public domain. And as they get the license, they set it up, they'll decide how to go about, how much do they want to book the business here and so on and so forth. But it's in a 24-month horizon, I would see we should expect no change, but we'll see.

Second order, we are building our own open architecture two-wheeler financing business. We we launched that business in June, July. We expect that business to be 2,50,000 to 3,00,000 two-wheeler loans non-Bajaj Auto in the current fiscal. So we're now already clocking anywhere between 11,000 to 13,000 new accounts every month. And it's a staggered rollout. We for the first six months did not rollout in many cities. Having gained confidence we are now accelerating the pace a little bit and foresee 250,000 to 300,000 open architecture accounts. So, that's really how we see. Yes. Sandeep, Sandeep had a point.

Sandeep Jain: So, Mahrukh, I think, we move a significant volume for Bajaj Auto. I think, we remain a large partner for them. We continue to work with them in that spirit. Post the RBI license to run their own NBFC, they can decide what, they deem appropriate for their company. We continue to run the business.

Mahrukh Adajania: Thanks a lot. My next question, you probably partly answered it. But my next question is that most NBFCs and banks are bullish on demand for FY'24, whereas a lot of market participants are a little worried about the high base and a possible slowdown. So what is your view?

Rajeev Jain: So, one, I think India seems well placed to grow at 6% and above. So, I think that's point number one. As I said earlier, overall consumer credit growth seems quite strong. If you look at some of the bureau data, that we're tracking on a three-year pattern standpoint, the numbers look very, very strong. As I said earlier, in some of those segments, it's my personal view, when I see that level of growth that worries me a little, but that's for each company to manage its own risk and play.

We do, our view would be, if we could, given our exit momentum. We principally think given the best ever portfolio metrics, strong customer acquisition engine, a strong AUM growth, exit rate that we've delivered. And a scalable app and web digital stack. We should be able to grow anywhere between 28%, 29% on a consolidated basis with an equally sharp focus on profitability in FY'24 as well.

Mahrukh Adajania: Okay. Thanks a lot. Thank you.

Rajeev Jain: Thank you.

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

Umang Shah: Yes. Hi, thanks for taking my questions and congratulations to Rajeev.

Moderator: Umang, sorry to interrupt you. But we are losing your audio. May I request you to come in a better reception area please?

Umang Shah: Yes. I'll just repeat. Two questions that I have, first is on the leadership transition. So, with Anup and Rakesh onboard with, on the board in their new roles, is there any change in terms of roles and responsibilities between yourselves and the senior leadership team, if at all?

Rajeev Jain: The answer is, no. I mean, you know, principally, the reason for appointment of the two senior colleagues of mine on the board, as the company grows larger and works towards delivering its long-range strategy. We have to continue to, we must as a company continue to augment the bench. And as a result, the company onboarded both of them who are Deputy CEOs of the company doing very large roles as board members. They bring vast business experience and which should really help the company as it continues to grow from here on. So that was the objective of they're moving as Board members, as Executive Directors.

Umang Shah: The second question that I have is on the asset mix. So FY'23 as you already spoke during your initial comments, AUM mix hasn't really changed much. Our portfolio metrics are looking really great. And I think you also have a closer to about INR1,000-odd crores of management overlay, which is sitting on the balance sheet. Then in that case, given that you're talking about some NIM pressures. Is it possible that we may see the tilt of the balance sheet shifting more in favor of riskier or unsecured assets? Or we are targeting for maintaining similar sort of asset mix?

Rajeev Jain: No, this is our mix. This is our mix, plus-minus as I said 1%. It's also hard to change this mix. At INR2,50,000 crores, I can't shift this mix unless and until, and there is no unless and until. I can't shift the mix. And we like this mix. I think it delivers optimal outcomes from a risk management and scalability standpoint. So, plus-minus 1% is really how it's likely to change. It's been not only just two years, if you go back even to 2020, the number was 32%, 33%, let's say we take mortgages as an example. So, these numbers are largely, have been in the corridor, even in '19, '20, if I look at it. So, not likely to change, Umang.

Umang Shah: Understood. Perfect. Great. Thank you so much and wish you good luck. Thanks.

Rajeev Jain: Thank you.

Moderator: Thank you. Next question is from the line of Saurabh Kumar from JPMorgan. Please go ahead.

Saurabh Kumar: Hi, sir. There are two questions. One is, how is your market share in subvention fee, I think right now, basically in the 50% assets. And the second is in terms of credit filters, relative to your own history where will you be? Will your credit filters now be below the 2018 level? Or, if we can get some sort of your comments on that? Thank you.

Rajeev Jain: Both are fair questions. at a design level, we are a market leader by a wide margin, you know that. So, I don't have to tell you, intend to remain so. Earlier point that I made to one of the questions that we've augmented our B2B infrastructure, significantly given we are seeing stability. So, we are likely to see the market share grow is really what our view is. Given the investments in the last 90 days we've made on staffing. So, the market share number, if you go by value it would be upwards of 50%, by value. Volume; we make a set of choices, because we have to deliver growth and profitability.

We make a set of choices and those choices we're very clear about, that they're made to ensure we make per unit economic profit. If you don't make per unit economic profit, which meets your threshold irrespective of what our competition is doing, we would not do. And I still said, we're still, we foresee that we should grow volume itself by 20% in the next fiscal. So that's what our view on point of sale business is, Saurabh. In terms of risk filters, at a design level, we were very, very tight over the last three years. As I said earlier, that, we all now looking at pandemic in hindsight.

But benefit of hindsight is you're out of it also. We were very, very tight over the last three years. As you've seen data flow, based on data, by market, by line of business, we take decisions. So there is no answer that I have a lose stand or I have a risky stand or so, it's data determined. Whatever the data says is how we run our business and we intend to continue to do so. You know, Sandeep is just telling me that, so that people don't mistake. We used to say, that our subvention market share was, it used to be 67%, 68%.

Our reasonable estimate which is between 60% to 65%. And I would say, it's very likely in FY'24, it will go back to that level. Definitely, in terms of value. So he is just saying, so that the metric is not confused with. And that was a value market share in terms of disbursement, upwards of 50% number that I talked about. This is subvention market share.

Saurabh Kumar: Thank you.

Rajeev Jain: Thank you.

Moderator: Thank you. The next question is from the line of Bhuvnesh Garg from Investec Capital. Please go ahead.

Bhuvnesh Garg: Thank you for the opportunity. Just a data keeping question. So sir, what could be the number of active customers as on March '23, basically the customers who are currently in active loan and paying payment…

Rajeev Jain: We're banking 30 million customers currently every month. We have 18 million, 19 million MAUs on the digital app platform, but the banking number is real and material.

Bhuvnesh Garg: Okay. Thank you. That's it.

Moderator: Thank you. The next question is from the line of Abhishek from HSBC. Please go ahead. Abhishek, may I request you to unmute your line from your side and go ahead with your question, please. Due to no response. We move onto the next participant. The next question is from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: Yes. Hi, thanks for the opportunity. Got couple of questions. First, again, you have explained in details, but now considering that your customer franchises reached almost closer to a third of the entire sort of a bureau, a data base count. Now from here onwards, I mean, you are still expecting kind of a close to 16%, 17% growths in the franchisee annually. I mean, do you expect, you to continue to sort of increase the penetration in the current bureau database customers? Are you expecting this, that the so called loanable customers of the bureau database, itself to grow at a certain rate. So that's number one. Second, just in terms of your experience, are you seeing some kind of a slowdown in mortgages in this kind of a high rate environment in the current going month. I mean, what's your sort of reading for early reading for FY' 24 mortgage? So, you have two questions. Thank you.

Rajeev Jain: So, I'll, you know, in general, our experience is for the new customers that we bring on board, between 60% and 65% of the bureau score of 750 and rest 30, 35 are new to credit. That's our, in general, multi-year track record. That's our experience. That's empirical experience over the last many, many years. That has not changed even in FY23. So, I think there remains a lot of room is the only point I would make. On home loan demand, Atul is the right person to opine, but I'll just say that I think clearly higher interest rate and high inflation in general lead to slower mortgage demand. I think, so there's no, I'm only making a point that is known for the last many decades. It just flows through at a cascading level into the sector. So, I think that's the only point

I would make. We grew 24% in the quarter that went by, on a full year basis grew 30%. Our size remains small.

Atul Jain: So, as far as home loan is concerned, what we have seen in the last two quarters, towards in the affordable segment, affordable segment, when we say, I don't mean affordable as per EWS definition, but let us say 50 lakh kind of a unit, we have seen a slowness in uptick because as a higher interest rates and the inflation, I think has bricked in into some part, but overall demand still remains strong. Overall home sales remain strong. Inventory at the industry level, I think is all time low. In few markets, it is even less than 12 months, which is there and the luxury demand in the upper premium segment demand remains very strong. So, in FY24, as of now, we don't see a major demand compression, if I have to say, my view or the way we are looking at the market.

Rajeev Jain: And I'll just add to what Atul said, our overall size remains small. Aggregate balance sheet is INR77,000 crores, aggregate 69,500 there and another 7,000 aggregate balance sheet here, INR78,000 crores. So, we have a lot of headroom to grow, even if the growth is slowing down.

Atul Jain: Thank you.

Moderator: Thank you. The next question is from the line of Prakhar Sharma from Jefferies India. Please go ahead.

Prakhar Sharma: Thank you. Rajeev, just two questions, one from a slightly longer term perspective.

Sandeep Jain: Didn't get your name.

Prakhar Sharma: Prakhar. Sandeep, Prakhar here. So, I just wanted to check on two things. One is on the upcoming announcements around one of the large corporates, Reliance Group trying to foray into this company, into the segment. I know hardly anything is known, but from your perspective, Rajeev, how do you prepare Bajaj Finance for something which can be intense? We don't know, but how do you prepare within the information that you have? That is the first thing and I'll have a small data question after that.

Rajeev Jain: Yes, I wouldn't like to comment on competition. That's point number one I would make. India represents tremendous, very large opportunity for long-term growth in financial services. What is in my control is that I would work, instead work towards realizing our ambition of 100 million consumers, which is really the ambition that you have outlined, and take a disproportionate share of these 100 million consumers' payments in financial services, products and services. With a laser-sharp focus, I would say, on frictionless experience. That's really what I would do. Opportunity remains very large and we compete. We compete today with those who have been in this business for decades and decades. It's a highly competitive industry. That's really what I would say, Prakhar to you.

Prakhar Sharma: Got it. Just one small clarification, if you can make, on this margin trajectory and cost. Maybe it's neutral at an aggregate level, but just to understand the margin lever more, this 30-40 basis point readjustment that we could see between FY23 and FY24, is it contingent upon another rate hike or it would nevertheless happen and we would probably still have only a little bit impact on ROA, nothing more than that, if you can clarify that part.

Sandeep Jain: So, Prakash, 40-50 basis point compression that Rajeev referred to does factor in potential one increase by RBI. So, it does take into account that consideration. That's point number one. Point number two is, again, Rajeev clarified that we don't expect a significant impact on the ROA and ROE for the company. I think opex to name it is currently at over 35% for the current year. We are expecting it to be below 34% in the next FY24. That should give us some savings. Overall impact to ROA could be 5, 10, 15 basis point and max.

Prakhar Sharma: Perfect. Thank you so much.

Rajeev Jain: Thank you.

Moderator: Thank you. The next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Thank you for taking my question. My first question is, in the last quarter, when we articulated our long-range strategy, a few segments that we are looking to enter, MFI, vehicle financing, we just wanted to understand, are these all going to be organic capabilities that we are going to build at Bajaj Finance or there could be some acquisitions along the way?

Rajeev Jain: So, all organic, no inorganic. That's the answer. We like to build businesses rather than buy businesses. So, and we've already outlined our ambition, towards our ambition, products that of our customers' wallet that we don't offer, which we got to cover. I also said, however, in the last quarter's call, that the new product launches contribution to AUM will not be material number for next three years. Let me make that point. Let me reinforce actually that point. It will, the next three-year AUM is essentially going to come from the current set of products that if you take a five-year view, which is really why we published a five-year strategy, the answer is yes. In a three-year horizon, we are not likely to see material change in the product mix stack and the contribution of these products to the overall AUM. So, and next three-year AUM will come from existing set of products essentially.

Abhijit Tibrewal: Thank you Rajeev. My last question is again on this personal loans, ODs, unsecured personal loans. You briefly touched upon that earlier, where you also highlighted that given that we have a whole host of NBFCs who have entered this segment, NBFCs who have not seen many cycles in the path and who have entered this segment, how I said quality could really pan out for this product? My question here is, Rajeev, I mean, from what I understand, we were at least among NBFCs, the clear leader in this product segment and probably we still are. But given that we have, I mean, I can think of so many NBFCs today who have entered this personal loans, OD product segment, started offering all these flexi loans, which we have championed in the past. Are you seeing, I mean, the pie itself going up or are they some of these NBFCs gaining market share from you in this segment?

Rajeev Jain: When I was making, talking unsecured personal loan, I was not meaning NBFCs. Let me clarify, I was meaning the overall banking system because NBFCs are only 20% of the system, the 80% is banking system. I think that is, so I was meaning the entire banking system, banking being or the financial system, including PSU, private, public and NBFCs. And the order is, this is not the order, I mean all. And as I said, when I look at the numbers, I hope people have modelled their models to know these are fixed interest rate products, have a cycle and they know they have only been going longer across the industry, what we can see.

So that is really what I was meaning. But I was not meaning fintechs, I must reinforce that point. I was not meaning fintechs, I was not meaning small loans, I was referring to INR3 lakh plus average personal loan, which is, so that is really what I was principally referring to because the small ticket personal loans deliver volumes, they do not deliver disbursements, they do not deliver value. So, as I said, as Anup is saying that, is it risk adjusted or not? That is the point Anup is making. It is a fixed interest rate, long tenor, cycle not accounted for frame is the only point I am flagging, if I may say so.

Abhijit Tibrewal: Fair enough. This is useful. Thank you very much and wish you and your team the very best.

Rajeev Jain: I would just make only one point. I mean, you know, the rightful thing to do would be to seek, if I may say so, as investor community so that I am not, is to look at bureau data. You know, I am not speaking from personal assessment, I am speaking from a, bureau data on a formal structure basis is the reason I am making the point. So, that is, and I would encourage you guys to engage them and seek information whatever they are able to provide.

Abhijit Tibrewal: Thank you so much.

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

Piran Engineer: Yes, hi. Thanks for taking my question. So, firstly, if I may just start off, given that you all are meaningful players in the credit card market and revolver shares across the industry are down, just what are your thoughts on, you know, what will it take to improve, what are the levers to offset that as a credit card player?

Rajeev Jain: I mean, you know, we are, we essentially distribute on behalf of RBL and DBS. I see the RBI data on spends and revolve and so on and so forth. It clearly does seem that structurally revolve rate is down and nobody has an answer to spends are not down that much, spends are up, but revolve is down. There is something at work and nobody seems to have an answer. And we essentially are mere distributors. So, we have only that much insight into the profile. But I, whatever I hear, I do clearly hear the revolve rates are down anywhere between 8%, 10%, 11%. Yes, so, you know, so nobody knows the answer.

Piran Engineer: To offset that?

Rajeev Jain: You can't offset that, right? I mean, you know, it's a, it'll build up. Having said that, I would just say to you that principally, the only logical reasoning that everybody is able to come to is that a lot of customers who would revolve and over long periods of time and these cycles have been seen in the Western market when a crisis happens, the revolve rate drops dramatically. And over time, the new customers come in whose revolve rates are high, and it builds as part of the overall balance sheet to reflect the high revolve rate. That's really a cycle play. Yes, so sometime, it's time that you'd wait for, it won't happen quickly. But would it sometime go back? The answer is yes. When one will have to watch monthly data, so far is not demonstrating is what it seems to me in general, that revolve rates are up in any given manner. From whatever I can read in public domain.

Piran Engineer: Okay, fair enough. And my next question, you know, basically, in the last con call, we discussed what sort of yield hikes have been taken in fixed rate products, you know, and in the last nine months, it was about 50 to 70 bps. Have we seen further rate hikes in fourth quarter? And are we expecting in FY 24? The basic reason of asking this is that, you know, in the last one year, home loan players have passed on the entire cost of funds to their borrowers. Whereas auto loans, personal loans, these guys who you would have thought would have been able to pass on and not been able to pass on the entire increase in cost of funds, which is pretty counterintuitive. So just wanted to get your thoughts on that?

Rajeev Jain: No, no, your point is absolutely correct. Logically should have happened. Anyway, it goes back to the point on competitive intensity, right? People are gathering assets are they mispricing? Asset gathering is a question that will have to be answered someday. Is the conclusion that one would reach is what I would say, Piran. So it's for each company to determine. Sorry.

Piran Engineer: Have we hiked after December? Till December it was 60-70 bps.

Rajeev Jain: Yes, we have not hiked.

Piran Engineer: No. Okay. Okay. And if I just may squeeze in a yes or no question now with this removal of commission caps for insurers, you know, any meaningfully higher distribution income possibility for you?

Sandeep Jain: Piran, difficult to answer. I think IRDA has come out with regulation at this point in time. And the insurance companies are expected to review it, see the performance of the intermediary, see how propense, how penetration is going up. And based on that, probably take a call in terms of what is rightful commission that they name appropriate. I would say, depending on the size, scale, and the unique feature that a corporate agent can bring to the insurance company.

Rajeev Jain: And performance of the portfolio.

Sandeep Jain: I think IRDA has reasonably liberalized it. They have given caps. And within that, the insurance company is expected to follow policy. So we will await that.

Piran Engineer: Got it. Great. Thanks for your answers and wish you all the best.

Moderator: Thank you. Ladies and gentlemen, that will be the last question for today. I now hand the conference over to Mr. Samir Bhise for closing comments.

Samir Bhise: Thank you, Nirav. Thank you, everyone, for joining this call today. Thank you to Rajeev and team for giving me the opportunity to host the call.

Rajeev Jain: Thank you. Thank you. Thank you so much.

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