Bajaj Finance Limited

Q2 FY '26 Earnings Conference Call

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MODERATOR: **MR. ANUJ SINGLA – JP MORGAN**

Moderator: Ladies and gentlemen, good evening, and welcome to Bajaj Finance Limited Q2 FY '26 Earnings Conference Call co-hosted by JP Morgan. This event is not for members of the press. If you are a member of the press, please disconnect and reach out separately. Please note that this call and your questions will be recorded and the recording will be made publicly available. By participating in this event, you consent to such recording, distribution and publication.

All participant lines are in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you do need assistance during this conference call, please signal an operator by pressing star then zero on your touch-tone phone.

I'll now hand the conference over to Mr. Anuj Singla from JP Morgan. Thank you, and over to you, sir.

Anuj Singla: Thank you, Neerav. Good evening, everyone. This is Anuj Singla from JP Morgan. Thank you very much for joining us for the Bajaj Finance Q2 FY '26 Earnings Call. To discuss the earnings, I'm pleased to welcome Mr. Rajeev Jain, Vice Chairman and Managing Director; Mr. Sandeep Jain, COO and CFO; and other senior members of the management team.

On behalf of JPMorgan, I would like to thank Bajaj Finance management for giving us the opportunity to host them.

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

Rajeev Jain: Good evening all of you, the investor deck for Q2 FY '26 has already been uploaded on our website. I hope you had a chance to go through the same. I'll quickly focus on key updates for the quarter before we move to Q&A.

Overall, good quarter across key metrics of AUM growth, opex to NTI and profitability. ROA and ROE remained steady. Q2 credit cost was elevated. We expect full year credit cost to be at the upper end of guided range of 1.85% to 1.95% now.

In terms of growth drivers, if I move to panel number 47 actually -- so I'll keep moving panels, so be with me. Assets under management grew 24% to INR 462,261 crores, led by secular growth across businesses.

New lines of businesses, namely gold loans, new car loans, CV, tractor are growing in a healthy manner and contributed to 3% of overall AUM growth in Q2. MSME growth, which we have flagged in last quarter, moderated to 18% as part of our risk-first approach to ensure portfolio resilience and long-term sustainability.

The captive 2-wheeler and 3-wheeler finance business is getting phased out as per the plan, strengthening overall asset quality trends from FY'27 onwards perspective. It now only contributes to 1.5% of overall AUM.

Customer franchise, a key driver of our growth momentum for future years, expanded to cross 110 million to end at 110.64 million. We added 4.13 million new customers in Q2 alone. We now expect to add 16 to 17 million new customers in FY '26.

In general, from a growth standpoint, if I look at the outlook, the company has decided to take a prudent and balanced stance on AUM growth for FY '26. And we now think the growth will be in the region of 22-23% as compared to our earlier assessment of 24-25% due to a set of risk actions that we have taken in MSME business, and the revised assessment provided by BHFL on its AUM growth for FY '26.

So we now would circle up our guidance to 22- 23% growth for full year versus 24-25% that we had pencilled in January'25, when we talked about. In terms of cost of funds and liquidity, cost of funds continue to improve, improved by 27 basis points in Q2 and came in at 7.52%.

For FY '26, we expect cost of funds to be in the region of overall full year to be between 7.5% to 7.55%. NIM came in flat, in line with Q1. Deposit book, which contributes to 18% of the overall consolidated borrowing grew by 5% year-on-year.

For FY '26, in general, as you saw in the trends in Q1 as well, the company has adopted a measured stance on its deposit program with higher focus on delivering cost of funds efficiencies to the businesses. And we'll share greater detail on deposits business as part of LRS that we'll publish for FY '26.

In terms of operating efficiencies, company continued to deliver efficiencies. Opex to NTI improved to 32.6% as against 33.2% in Q2 last year. AI implementation across each line of business continues to move forward and should start to reflect in cost and productivity benefits over the next 12-18 months. In general, we remain very, very excited about the FinAI transformation.

On risk and credit quality, loan loss to average AUF came in at 2.05% compared to 2.02% in Q1 from a sequential standpoint. Credit costs principally remained elevated in Q2. However, the good news is that the vintage metrics when we look at the portfolio across 3 MOB, 6 MOB, 9 MOB are showing significant improvement.

As a result, we expect full year credit cost to come within 1.85% to 1.95% for FY'26, and we expect significant improvements in credit costs for FY'27. On credit cost, let me just give you a double-click on it to give you some texture. So MSME business remains under watch and company has taken significant risk actions.

We have virtually cut MSME business by 25% in our unsecured MSME volumes. We now expect MSME business to grow in the current full fiscal by 10-12% only. The captive 2- and 3-wheeler business continues to -- which contributes to 1.5% of AUM, but accounts for 9% of the overall loan loss also continues to run down. That should also lead to significant improvement in loan loss to average AUM metric in second half of the year and also in FY'27.

GNPA and NNPA came in at 124 basis points and 60 basis points. In general, let me just flag that on a first quarter to second quarter, the number goes up or moves up sequentially because of number of -- a high number of days between Q1 and Q2. So you will see that even in last year as well. So the number moves anywhere between 15 to 18 basis points...

Sandeep Jain: 18 to 20...

Rajeev Jain: 18 to 20 basis points as Sandeep is correcting me, which is really how it is for the last 2-3 years, if you look at the trends. On portfolio credit quality, the management assessment for rural B2C and MFI has been improved from yellow to green, as you can see it in the numbers itself in the portfolio quality panel.

Lastly, but most importantly, I would like to just reemphasize the point. You're aware of it as long-term investors that we principally remain a risk-first company. Let me now switch over to FinAI transformation. Soon, we'll start to publish metrics as well. We are 8th-9th month into implementation of FinAI transformation for us as a firm.

It remains central to our long-term vision, and we are on track to become a future-ready AI financial services company over the next, I would say, 15-18 months. It's underway across each line of our business and should start to reflect in cost and productivity benefits and for consumers as they experience Bajaj Finance over the next 12-18 months.

We, as senior management are now spending virtually over the last 8-9 months, 12-15% of our time on FinAI transformation. We have identified as a firm as part of our BPR process, 123 impact areas -- high-impact areas across business and functions with 80 of them, which will plan to go live by end of Feb '26.

So lots of action happening on FinAI. Some of the capabilities are already live like B2B businesses. I'll give you some texture, 442 AI voice bots are now live. They contributed INR 2,000 crores of origination in Q2 alone. Its 5 AI conversational bots, text bots are live for EMI card, extended warranty, personal loans, health insurance and life insurance. The conversion rates in general are quite encouraging.

We foresee that all our communication by March '26 would have a BOT in it, depending on the affinity product that we principally see. So, so far, 5 have gone live. The pace will now increase very rapidly as we get into the second half of the year. 85% of customer service resolutions in Q2 was resolved via AI-powered service bots. In B2B, where we moved a lot of volume in these 40 days, 42% of loan applications in terms of quality checks was performed by AI.

We booked in the process 6.5 lakh loan applications in a single day with zero compromise on operational and compliance risk. So we're continuing to perfect, perfect, perfect. This number is at 42%, eventually has to go to 85-90%. So good work done, but there's lots of work to be done as we move forward.

In terms of content generation, 42% of our digital banners, if you go to our asset and 100% of videos, if you experience, are now principally AI generated. We're also using AI for significant enhancement or enrichment of data variables in terms of using audio recordings to extract meaningful variables. And we are quite excited about the kind of data breadth and depth that it would really improve as we deploy this capability across our voice ecosystem.

We're also -- one of the areas that we are very excited about on FinAI is deploying face recognition technology. We're going to test with 300 points of sales, service and gold loan branches to identify existing customer and create a WOW experience when they walk into these branches or points of sale.

That's something that will go live between now and December, and should help significantly transform the experience. So that's really on FinAI. I've so far covered consolidated financials and company. I've talked about FinAI.

Let me now jump over to subsidiaries. BHFL has already published its results. They had a stable quarter with AUM growth of 24% despite heightened competitive intensity, I would say, and significantly higher-than-expected portfolio attrition. They still delivered a PAT growth of 18% and ROA of 2.3%.

Asset quality for BHFL remained very healthy at 26 basis points GNPA and NNPA of 12 basis points. BFSL, which is the other subsidiary, a bit smaller, saw 40% growth in AUM and profits were up by 27%. It added 94,000 customers in Q2.

Very quickly, just before I open up the floor for Q&A, I thought I'd just provide 2 more updates. One update is on management. As we made a set of announcements in Q4 FY'25 on -- regarding the management structure. The Board of Directors at its meeting held today has approved the elevation of Mr. Manish Jain as the fourth Deputy CEO of the company.

Manish, in addition to his current role as Managing Director of BFSL, will also now be responsible for company's loans against security business, commercial lending business and the deposit business. So the company would now have 4 Deputy CEOs and 3 Chief Operating Officers as what we call executive management group running the firm.

Just before I finish, I thought I'd just give you a quick update on the festive performance. Clearly, the structural reforms in income tax and GST by the government has lifted customer sentiment and spurt consumption, led to a very strong season. We've already done a press release where the company disbursed a record 6.3 million loans, up 27% in volume and 29% in value over last year. This is a 37-day, right, Manish? 30, 30...

Manish Jain: Yes, 35 days.

Rajeev Jain: 35-day period. It's Navratri to Bhai Dooj or 35-day peak kick-off of the festival and end of the festival season. Overall, festive period disbursements were 7.4 million loans we did and a 26% increase year-on-year and added 2.3 million new customers during this period with 52% new to credit at par with previous years.

So that's really end of my opening remarks. We are pretty confident of delivering sustainable growth, managing risk proactively and leveraging technology and AI to create long-term shareholder and stakeholder value for everybody.

And happy to take questions now. Anuj, over to you.

Moderator: Thank you, Rajeev. We will now begin the question and answer session. First question is from the line of Kunal Shah from Citigroup.

Kunal Shah: Rajeev, so firstly, with respect to growth, you indicated mortgages and SME growing slightly slower. But again, at the same point in time, festive appears to be quite strong and everyone seems to be quite constructive on the growth. So are there any other segments which you would be worried about in terms of like pulling back on the growth side because new businesses are also scaling up well? Or it is only on account of these 2 product segments that we are revising the guidance lower?

Rajeev Jain: Both these contribute to 31% and 14%, 45% of the balance sheet, right? They contribute to 45% of the balance sheet. And so in a way, your point is absolutely right that the other businesses are picking up the slack. We are just the guidance reduction to contribution of these businesses, and their slower growth is meaningfully being made up by other lines of businesses, Kunal, as you can reflect on. So we remain quite excited. It's other businesses, whether it's gold loans, car loans, rest of the -- LAP, business growing quite healthily.

Kunal Shah: Okay. And in fact, now rural B2C would also start given that now it's starting into green, so that will also contribute to the overall growth?

Rajeev Jain: That's correct.

Kunal Shah: Okay. And secondly, with respect to asset quality, so stage 3, it's moving up. Would it be fair to assume that larger part of this flow is from stage 2, maybe net number is quite small. But including that otherwise, when we look at it, like maybe the GS3 increase is all across the segments, when you look at it, all the product segments have seen a significant increase. So that's largely the -- only the flow-through, which is there?

Sandeep Jain: Yes. Kunal, your assessment is absolutely right...

Rajeev Jain: Together. I'll hand it over to Sandeep.

Sandeep Jain: Yes. So I think if you look at even last year quarter 2, you would see that the GNPA sequentially goes up. This is peculiar -- there's a peculiar situation that you have 231 days month in quarter 2. And since we have recognition of stage 3 and GNPA on a number of days, the customers who are at the edge, which is 88, 89 days overdue, goes and process 90 days position on -- in the September quarter.

So as a result versus a normal quarter where you see 3 months of GNPA flowing in, etc., you see in quarter 2, 1 additional month of GNPA. That creates like 18 to 20 basis points of additional GNPA formation in the quarter. Now having said so, on a Y-o-Y basis also, the number is higher.

Rajeev Jain: And correspondingly, just to -- correspondingly, there is a benefit that appears because of fewer number of days in fourth quarter.

Sandeep Jain: Fourth quarter...

Rajeev Jain: In fourth quarter.

Sandeep Jain: Correct.

Rajeev Jain: So just to level the point.

Sandeep Jain: Correct. Having said so, the number has gone up between, say, last year same time to now. Last year same time was 1.06% of GNPA. Currently, it's at 1.24%. Out of this 18 basis points, the captive 2-wheeler 3-wheeler financing business, which is on rundown mode, contributes to about 12 basis points of additional GNPA formation.

And the MSME, which is what we called out in Q1 as well, has contribution of another 6 basis points. So these are the 2 business to call out. Other than that, all other businesses have held their performance on a Y-o-Y basis and sequential quarter basis as well.

Rajeev Jain: So sequentially is purely number of days, Kunal? Yes. And year-on-year, it is principally on account of 2-wheeler and MSME.

Sandeep Jain: And the last point on that is -- to the point that you're making on stage 2 to stage 3. The overall formation of stage 2 and stage 3 put together was just about INR162 crores for the quarter, one of the lowest that we have seen in a very, very long time.

Moderator: Next question is from the line of Jay from Nirmal Bang.

Jay: Sir, my first question would...

Moderator: Jay, sorry to interrupt you. Can you please speak through the handset?

Jay: Am I audible sir now?

Rajeev Jain: Better, much better.

Jay: Sir, my first question would be on the MFI lending. Sir, we see there is a 217% growth year-on-year on that book. So do we expect that the pain in the industry has peaked out or it is plateauing? Sir, some comments on that? And my second question is on tractor financing. So can you give the split between used and new for the thing?

Rajeev Jain: So we are too small in MFI. Balance sheet is only INR 1750-odd crores. So we're not the right people to comment on whether the worst is over for MFI or not. I think that's the first point. We are focused on our portfolio. As you can see at this juncture, the portfolio based on the disclosure we provided is at 99...

Sandeep Jain: 9.22%...

Rajeev Jain: 99.22% current. So we continue to tread carefully, knowing fully well as to what's happening in the industry. Tractor, again, the book is very, very small. That's point one. Total book is INR 1,000 crores, so not material. But on a more important basis, we have -- as we started the business, we were very clear as to what the mix is to be.

The mix is to be 75% new and 25% used. That's the mix, and that's a mix with which we are building out the business. So our portfolio modelling says that for us to deliver minimum hurdle rate of return on equity in the tractor finance business, we'll need a 75-25 mix, and that's really what we are going with.

Jay: Okay. Understood. And sir, do we have a partnership with the OEMs? Or does -- how does the partnership with the OEM work here...

Rajeev Jain: Like in a typical B2B business, this is a B2B business. We work closely -- they are mostly very regionally dominated players. We work with all of them. I mean we are not pan-India as yet. We are in -- Harjeet, in how...

Harjeet Toor: 400 towns.

Rajeev Jain: We are in 400 towns in India at this point in time. So -- and predominantly South and West...

Harjeet Toor: We're actually North and West...

Rajeev Jain: North and west, sorry, dominated. So which is building out, it's too small as yet, but promising.

Jay: Okay. And sir, last question on MSME lending. Sir, we see GNPA growing up significantly. Is it because of the regional issue -- regional rainfall issues, which were highlighted by the peers?

Rajeev Jain: As we had outlined, we are seeing in last -- first quarter, we talked about it that we are seeing incipient stress. It's across the board. It's not regional in nature. And as I've said in my opening remarks, we have cut business by 25%-odd and hoping that the worst is behind us by between March and June, and it can be in a growth mode from there on.

Moderator: Next question is from the line of Sucrit Patil from Eyesight Fintrade.

Sucrit Patil: I have 2 questions. The first is it's a forward looking question. As more fintechs and NBFCs scale up across India, what is Bajaj Finance doing to build a strong edge, not just through AUM or app downloads, but something more deeper, like a way of working or thinking that grows over the time and makes your competitors hard to copy your model?

Rajeev Jain: I mean we could spend 1 hour on this question, quite honestly. But on a more serious note, we have, for the last 3 years have published a long-range document. Long-range planning document demonstrates how we're thinking about the company, the business, the diversity of its businesses, the way we see franchise growing, size growing, our ambition.

So I would request you to look at the document, which provides reasonable coverage. And if you see it -- rather than on a 1-year basis, if you see the pattern over 3 years since we started to publish long-range plan, you will get -- you will connect the dots much better.

We are anyway headed into our fourth release of long-range plan, which will be published on 5th of December this year because we have an Investor Day. So we would welcome you to come and join us for the BFS Investor Day, where I'll be sharing what our long-range plan is. But we remain quite excited is what I would say.

We are building business. Last point I would make, we are building businesses with a 10-15 year view. We are very clear we want to deliver the short-term, medium-term and the long term, all 3 at the same point in time. I think that's the principal differentiation, if you ask me, sustainably for the past, present, and I would hope for the future as well.

Sucrit Patil: My final question, again, a forward-looking one, is about margins and cost planning. As growth picks up and costs go up, whether it is tech, compliance or collections or any other things, how do you manage to keep the profits line -- profits in line without cutting any corner? Are there any smart ways you have built into your systems, or you will be implementing that will help you stay efficient even when things are getting costlier?

Rajeev Jain: No. So at a fundamental level, process automation, technology leadership -- technology leadership at an underlying level, followed by process automation, followed by now FinAI will allow us to continue to generate velocity on one hand, benefit from scale on the other and ensure costs keep going down. All 3 will happen. And that's why we are a big believer in technology. It's early adoption on one hand and do it as what -- we are quite excited about it.

We've remained excited about -- we started to use cloud way back in 2007. We use data very extensively between '14 and '20. We built a 75 million app franchise. We do think it's now very close to being Amazon of financial services in India in terms of experience.

And we think we want to pioneer AI and financial services in this part of the world. So all that for what - for scale, velocity, controllership and eventually lower opex to NIM. So we see technology is playing a multifaceted role across the value chain.

Moderator: Next question is from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal: Just 2 questions that I had. First is in addition to what we have already shared on the MSME segment, if you can give some more colour. What I'm trying to understand is, I remember in the first quarter earnings call, we had shared that we expect about another INR 150 crores of loan restructuring in the second quarter. I think this quarter, we have done about INR 288 crores.

So I mean, was the asset quality experience in MSME much more pronounced than what we were earlier expecting? And then I also heard Rajeev sir earlier say on the call that maybe by March and June next year is where we are expecting based on incipient stress to settle down a few quarters almost into, so how much restructuring are we expecting in the MSME business in the coming quarters? And like I asked, if you can give some more colour on...

Rajeev Jain: We're mostly done with restructuring, Abhijit. We're mostly done with restructuring. It is used as a tool to enable good customers to assist them. So in terms of restructuring that you will see over the next few quarters, our number will very, very low, and's that's just one point I want to make. Sandeep wants to add.

Sandeep Jain: Yes, the other point that I want to make, I think it's in the interest of all the participants on the call. I think we don't want the discussion to get hijacked by MSME discussion the way it happened last quarter. Just to reiterate the point, we are on top of it. We have taken corrective actions. We believe that the problem is manageable.

We've also provided guidance in terms of growth, credit cost and so on and so forth. Nothing is alarming as such. So I would request that we focus on other areas, important areas than just focusing on MSME as a segment.

Rajeev Jain: And actions have been outlined to all the investors. And as Sandeep said, it's not changing the overall credit cost guidance in any given manner. So -- and that's the power of a diversified business that there are pluses and there are minuses. Net-net, as building a sustainable business for long term, it helps us and it helps investors in the process.

Abhijit Tibrewal: Got it. And then the only other question I had was, I mean, maybe 15 days that the festive season has got over in India, while we have already given out a festive season update. If you could give some colour on whether this momentum is sustaining or there's thing that...

Rajeev Jain: So momentum is sustaining...

Abhijit Tibrewal: You now, kind of...

Rajeev Jain: Yes, momentum, Abhijit is -- yes, yes. I think we're surprised by the -- given that the festive season was strong, but I would say, in general, the consumption patterns look quite promising. is what I would say, based on our understanding of the products that we finance.

Abhijit Tibrewal: Got it. And sir, would you also agree that, I mean, this momentum has sustained across most of the product segments where we are present, including consumer durable, auto finance, other segments...

Rajeev Jain: Answer is yes. Answer is yes. Except I would just add...

Abhijit Tibrewal: This is useful. Thank you, sir. I wish you...

Rajeev Jain: Abhijit, just to be fair, I would just add, we are very dominant in electronics, so we can -- what we say is happening to the market. We can say that confidently. I'm not so sure I can say that for auto, auto being new cars and so on and so forth. We are growing on a small base. So I can say it's strong for us, but our base is smaller.

So I just want to flag that point. In electronics or any of the consumption loans, we are pretty dominant. So we can say that what's happening with us or what we are driving does lead to denominator expansion.

Moderator: Next question is from the line of Piran Engineer from CLSA.

Piran Engineer: Congrats on the quarter. Just strictly on...

Moderator: Piran sorry to interrupt you, but we are missing your audio.

Rajeev Jain: Dropped, you dropped.

Piran Engineer: Okay. Is this better now?

Rajeev Jain: Better now. Yes.

Piran Engineer: Yes, yes. No. So just wanted to get some sense on how things stand in rural unsecured, rural B2C in terms of -- you used to give this data on how many customers are 3PL and above and how that has been higher than history. Is the fundamentals also improving just in terms of overall leverage?

Rajeev Jain: The answer is -- and principally, that was -- Piran, it's a fair question. Across businesses that we are in, we have cut 3PL to prior to '19- '20. It has meant I would say, a reasonable growth dilution, but it is one single univariate variable that's helping improve portfolio performance, I would say. So let's say, if you take rural B2C, number is below 1%...

Management: Less than 1%.

Rajeev Jain: Les than 1%, is what somebody with 2PL would be. In urban, it would be 4% -- 3% or 4%? 4.8%. So we have cut business.

Management: 4.8%.

Rajeev Jain: 4.8%. So we have cut business. This number used to be 13% and a year ago, 13% and 3%. So I can go business by business. But as we concluded that it's an important demonstrable variable -- metric of prudence, we've gone hammer and tongs after it. And it's showing benefit.

Piran Engineer: Okay. And this is on incremental or it is on your book? Like 4%...

Rajeev Jain: Since February, whatever you're originating is on these numbers. So it's incremental, but the book churns, you know that, right? So our behavioralized maturity of the book is 20 to 23 months. So to that extent, the book churns pretty rapidly. What we track is not just -- we track vintage performance.

What we are heartened by is the 3 months on books, 6 months on books and 9 months on books. So if you take February onwards, as I said, we started to take very drastic actions across portfolios. We were taking even earlier, but it was much more drastic from February. We're seeing 3 MOB, 6 MOB, 9 MOB, now virtually 9 MOB is coming, improved significantly. So it's just a matter of time that the whole portfolio churns.

Sandeep Jain: And talking about rural B2C, after a long time, we have now revised the management assessment from yellow that it was tagged for close to about 2 years to green. We are reasonably confident with the kind of change management that we have done in the business, the granularity with which we are building the rural B2C business and the significant improvement that we have seen in the vintage performance in the last couple of quarters. We are quite excited to rebuild the business and grow it faster.

Piran Engineer: Got it. Got it. And just secondly, you had mentioned captive 2-wheelers, which is 1.5% of the book is 9% of loan losses. So it's 9% of this INR 2,200 crores credit cost number?

Rajeev Jain: Answer is yes, correct.

Piran Engineer: And what would -- so the non-captive would be how much? Just want to get a sense of what's the difference...

Rajeev Jain: Equal size -- now, equal size virtually. As you can see on Panel 47.

Piran Engineer: That I know, I mean in credit cost.

Rajeev Jain: That if you see the number at -- if you go to -- we have separated it in the portfolio quality, that book, of course, is growing a lot more faster. Just go to portfolio quality, I think 98% current. Is it 97%? Just give me 1 second. That's 97.8% current. We are very clear it has to be at lower than -- it has to be at 1/3 of the loss of our captive. We are very clear. That's the choice we made.

Piran Engineer: Okay. That puts some context. Fair enough.

Sandeep Jain: And Piran, to the question that you're asking on open market 2-wheeler financing, while the vintage will have to still play out based on the number available so far, 1.5-2% balance sheet contribution, the same is the contribution for loan losses.

Eventually, it will probably be, let's say, 1.5x of the portfolio contribution because the business generally operates at higher credit cost compared to what we deliver at the organization level, but will be significantly better compared to what we are observing at this point, I mean, captive 2-wheeler financing business.

Moderator: Next question is from the line of Ashish Sharma from Oaklane Capital Management.

Ashish Sharma: Yes. Just one question on credit cost. So have we given the guidance for FY'27? So given that now we'll be closer to the upper end of the guidance at 1.95%, but you seem to be confident about the credit cost outcome outlook for FY'27. Have you given a number for that? What would be the normalized credit costs?

Sandeep Jain: So we are not giving an absolute guidance at this point in time, Ashish. But very clearly, direction of the travel suggests that we should see a much lower credit cost in FY '27. If the trajectory that we are seeing today should continue for the next year, we should definitely see a significant improvement in the credit cost ratio.

The second piece, which is also important to highlight is the point that we discussed that 8% of the loan losses were contributed by just about 1.5% contribution of the captive 2 wheeler financing business. That will also become very, very insignificant as we get into next year. That again will provide, I would say, tailwind to the overall credit cost number for the next year.

Third piece is we have taken significant provisionings in the MSME business in the current year on account of the issue that we are observing. Hopefully, as we get into next year, God willing, we should definitely see improvement out there as well. That again should provide tailwind to the overall credit cost performance. So my hunch would be that -- yes.

Rajeev Jain: The gold loan business, the new car financing business are much lower risk business. So -- and their contribution in the overall balance sheet is growing. So that should also be another element of tailwind to the business.

Sandeep Jain: And my hunch would be that while the range currently is 185 to 195 for the current year, and we are inching towards probably the upper end of the range for the current year, the number should be much lower as we get into FY'27.

And of course, if the first half was 202 and 205 for Q1 and Q2 for even 195, the numbers have to show significant improvement in Q3 and Q4. We believe that itself will provide a massive tailwind to FY '27 guidance. But we'll give their guidance sometime in quarter 4 slash quarter 1 of next year.

Ashish Sharma: Just reconfirming one thing in terms of the MSME guidance of 10-12%, do you think given the current scenario, the number – 10-12% is a very conservative guidance or is a realistic number?

Rajeev Jain: For the current year, right?

Ashish Sharma: Yes.

Rajeev Jain: Yes, it's realistic.

Ashish Sharma: Sure, sure, perfect. That's helpful. Thank you, sir, and all the best for the next quarter. Thank you.

Sandeep Jain: The last point probably, Ashish, on that, as an organization, we have never shied away from cutting business. Wherever we find an issue with risk, we are more than happy to take cuts, and that's the power of diversified business model that we cut a part of the business where we don't find the credit to be acceptable, but at the same time, work with other businesses where the credit performance continues to remain very solid and use those businesses to build the balance sheet.

Moderator: Next question is from the line of Priyanshu Ahuja from IIFL Capital.

Viral: This is Viral here from IIFL Capital. Just 2 questions from my end. Sandeep, first one for you. On the cost of fund guidance, I see that we have lowered our cost of fund guidance for the full year by around 5 basis points. Does this set up the stage for, say, from here on 5 to 10 bps kind of a margin expansion in the...

Sandeep Jain: I would love to have that, Viral. But I think the best assumption that we have at this point in time suggests that we will rather hold the NIM at the current level. Idea is to pass on the incremental benefit to customers. We have seen already 27 basis point improvement, and we have passed on the entire benefit to the customers even in the current quarter, and that's a result, NIM came in flat versus Q1.

Idea would be that work with improving the overall cost of fund environment as far as Bajaj Finance is concerned and use that opportunity to pass on the benefit to the customers and maintain the NIM at current level.

Viral: And just as a clarification, Sandeep, in this guidance on cost of fund, you have taken only 100 bps of rate cut, right, not say any additional incremental that will come in?

Sandeep Jain: Yes. We are not privy to any further rate cut that is being discussed or has been announced formally or informally. So we have taken only 100 basis points. Having said so, even if there's a rate cut either in December or February, given that it will be too close to the year-end, it won't have any material impact on the cost of funds for us as an organization. So you can assume that even with that, the 755 to 760 guardrail probably will remain same only.

Rajeev Jain: Benefit will flow in next year, not in the current year.

Viral: Got it. But there will be a benefit then, right? Once there is a cost of fund...

Rajeev Jain: Yes, there will be. Of course. Of course.

Viral: Of course. And second question, Rajeev, for you. On the gold loan piece, more so from, say, a medium-term perspective, I think we have executed there fantastically as to how we have kind of scaled up the book. I think incrementally, a lot of players are possibly looking at how we have been able to achieve this in a market that had long been just, say, duopoly or maybe 3 players at max.

Now fundamentally, how do you see this, say, over a 2- to 3-year horizon with the entry or the plans that so many other so-called large NBFCs have to get into this segment, assuming, say, 2 scenarios. Again, gold loan prices continue going up or secondly, if they don't go up, then how do you see this basically market evolving as such?

Rajeev Jain: Three scenarios, right? It goes up further, good. Remains flat, good. Goes down, we have seen in COVID, it went up to INR 55,000 per 10 grams and went down to INR 45,000, you land up doing fire sale. That's the nature of the business. So adjusted for that scenario, which, let's say, if I was for a moment, leave aside, I would say -- I would bet that this portfolio could be between -- we'll end this year with around -- we are INR 12,000 crores.

We'll end at around INR 16,000 odd crores, plus/minus. I -- and we are significantly -- we've just signed up a significant expansion in the business. It should be between INR 27,000 crores to INR 30,000 crores business by March '27. So we are raring to principally -- Sidhaant is supportive. Yes, so we have signed up.

We are -- we think we're reasonably -- and when I say reasonably perfected the model, perfecting the model is not just about aggregating assets. We track leading competitors in this business and the ROEs they generate. We are generating very similar ROEs as they are generating in the business. To us, the metric is not just scale. Metric is the level of profitability because that is the purpose of building this business.

And so we are satisfied with the fact that the business is generating ROEs in line with leading competitors. And thus, we can expand. So -- and you see structural expansion. You will see from now till March '27, virtually 900 more branches coming through. You would see instead of 500 of our existing branches get converted into gold loan branches because there is a second order point.

As FinAI gets deployed, branch branches will be rendered surplus, quite honestly. The staffing will become free to do other things rather than doing some of the work that they're doing today. It's a fact. It will happen in the next 15-18 months, which is connected to the point on FinAI that I was making to you.

So 2 things are coming together. So a cost centre will become profit centre, look at it another way. And two, a category which is pretty durable, low risk -- adjusted for the third scenario. Adjusted for always the third scenario, it's a commodity business to that extent, we are quite excited about it.

Viral: And just on that. Even in the second...

Moderator: Thank you. I request you to come back for a follow-up question, please.

Rajeev Jain: Okay. It's okay. Let him -- sorry, go ahead, go ahead. And after this, you stop, Viral. Go ahead, go ahead, go ahead.

Viral: Sure. So just on the second scenario, you mentioned that, say, assuming the gold prices don't go up or even go down, then in that scenario, how do you think that the market will grow, right? Because...

Rajeev Jain: Yes, I will tell you. No, it's a good point.

Viral: Volume growth is hardly low…

Rajeev Jain: I should have covered that at a fundamental level, see, one of the key modes that we've developed is apart from generating efficiencies per branch, which technically one has benchmarked and learned, 40-45% of the business is coming from existing customers. Actually, coming digitally, 40-45% of the monthly disbursals that we do now, we do INR 1,700 crores to INR 1,800 crores disbursals a month are coming from the app. That's really where they're coming from.

So it's a moat that we have created, which gives us high degree of confidence in being able to continue to sustain momentum. And mind you, 75 million customers are sitting on the app, 45-odd million are MAU. I don't have branch coverage. So as I multiply the branch coverage, the number will, in general, automatically multiply. So it's a coverage issue rather than a franchise momentum issue or the digital infrastructure issue. So we are at this juncture very comfortable.

Moderator: Ladies and gentlemen, we'll take the last 2 questions. Next question is from the line of Avinash Singh from Emkay Global.

Avinash Singh: Quickly, if you can help, I mean, the softness in other operating income, is it -- I mean, lower recoveries from written off account? Or is it on the lower marketing fees and all? That's one. And in FY '27 credit guidance, I understand that, I mean, of course, the captive 2-wheeler going out and gold and new vehicle increasing.

But is there some risk? I mean, now your customer franchise is close to INR 12 crores, you go further deeper, then each of the business lines where you are, probably you are going to a more of a bit of a slightly at the margin riskier customer. So I mean, is that understanding wrong? Or I mean -- or will you see some impact from that part because you are going perhaps deeper in each of the product segment?

Sandeep Jain: I'll take the first question. The other operating income, as you rightly called out, is on account of flattening of the bad debt recovery number. As we have seen the COVID period write-offs getting cleaned up, through recovery process over the last 3 years, the overall bad debt recovery number has started to plateau out. And that's why the other operating income has not seen the kind of growth that we have seen in the past. So that has...

Rajeev Jain: No, but we had also guided that in the current year...

Sandeep Jain: That's overall fee and other income put together. We are guided for the full year that between the NII and NTI, the entire fee revenue pool that we generate, combination of the fees and charges, plus sale on assignments and so on and so forth.

All put together, we will see 13% to 15% growth in the current year. I think so far, we are holding up to the guidance, and that's how the numbers are speaking about itself. As regard the other operating income, it's mainly on account of plateauing of the bad debt recovery number.

Rajeev Jain: The second question was going down the curve; we keep reiterating that is risk first. That's one part. But the second important part is continue to manage risk at a nuance. As our scale grows, as our complexity grows, so does our understanding improve? So we do not believe that we will grow at the cost of increasing risk.

And the franchise is very, very large. We are 13% of number of loans in India on a monthly basis, but we are only 4% of the balances. So we can just continue to pick and choose what we feel comfortable with from a risk standpoint and from a margin standpoint and continue to grow for a foreseeable period.

The gap is actually -- it's 4% and 13%. It's a 9% gap. That's the share of wallet of the customer that we would like to target over the medium term. It links to the earlier point the gentleman was asking, I think that was Abhijit or -- that where is the differentiation. Differentiation is in continued mining.

The differentiation is between 4% and 13%. 4% of balance -- 4% market share, 4%, 4.5% market share of retail and 13% of customer wallet. So number of loans to AUM, that's the difference, and that's what we'll deliver.

Moderator: Participants, we'll take the last question from the line of Marukh Adajaniya from Nuvama Wealth.

Marukh Adajaniya: You transparently laid out all the SME-related issues. And I guess you were the first to flag it off even in the first quarter. But most other lenders don't seem to be flagging any issue. So you would say it's a ticket size issue or it's something that the sector will eventually have to catch up with?

Rajeev Jain: I have no view on the sector. I'm a bigger believer in micro than macro. I had made the point even earlier that while macro has a role to play given our size and scale and breadth, but risk is a choice that you make, what you want to do and what you don't want to do. So I have no view on others.

I have view only on our book. Only thing I can reemphasize is that we are not seeing it to be a regional issue. We are seeing it as an across-the-board issue. We do MSME lending in 2,000 cities and towns in India and spans across North to South and East to West. So -- and we are working hard to mitigate that is really what I would say.

I would just counsel, just a last point that you guys should ask, take bureau's help in giving you deeper and better understanding of the data that may be of greater help. So we are seeing pressures on our base definitely.

Moderator: Thank you very much. I now hand the conference over to the management for closing comments.

Rajeev Jain: Nothing. Thank you. Good night. I thought you're referring to Anuj. Thank you so much. Thank you JP Morgan. Thank you, Anuj.

Anuj Singla: Thank you, Rajeev. Thank you Bajaj Finance team for the opportunity.