

## Bajaj Finance

**Operator:** Ladies and gentlemen, good day and welcome to Bajaj Finance Ltd. Q2 FY27 earnings conference call. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal the operator by pressing star and then zero on your touchtone phone. I am pleased to welcome Mr. Rajiv Jain, Vice Chairman and Managing Director, Mr. Sandeep Jain, COO and CFO, and other senior members of the management team. I now invite Mr. Rajiv Jain for his opening remarks, after which we will open the floor for the Q&A session. Thank you, and over to you, Mr. Jain.

**Rajeev Jain – Vice Chairman & MD:** Thank you to the Morgan Stanley team for hosting us. Good evening to all of you, or good morning depending on the geography you are in. Welcome to the BFL Q2 earnings call. The investor deck for Q2 has been uploaded on our website. I hope you have had a chance to go through it. I will quickly focus on the key updates for the quarter and our management assessment before the Q&A. I expect to take between 15 and 20 minutes.

Let us quickly move to panel 4 in terms of the quarter gone by. Overall, I would say it was an excellent quarter, with strong performance across all key metrics of AUM, new customer additions, credit cost, profit growth, ROA, and ROE. AUM grew by 26.5% to 584,624 crores, delivering a net AUM addition of close to 38,000 crores in the quarter. PBT grew by 29% to 8,537 crores in Q2. This was before the macroeconomic provision of another 337 crores. Including this, it grew by 34% to 8,874 crores. PAT grew by 29% to 6,367 crores before the macro overlay provision. Including this provision, it grew by 34% to 6,619 crores.

In Q2, the company booked 13.5 million new loans, just a tad below 13.5 million, and added 4.5 million new customers. The overall customer franchise today stands at 129 million customers, just a tad below 129 million. ROA for the quarter came in at 4.6% and ROE came in at 20.6%. Opex to total income was 33% and net NPA came in at 42 basis points. Overall, I would say it was a pretty good quarter and first half for the firm.

In general, AUM growth was quite secular. I will quickly go through it. I have actually moved to panel 52. If you see, the growth is quite secular. Urban consumer finance grew by 43%, rural consumer finance by 63%, MFI, though on a low base, grew by 54%, CV and tractor, on a low base, grew by 89%, and LAS grew by 42%.

The LAP book, as you are aware and as I have been discussing for the last 2 quarters, continues to wind down and would create significant tailwinds for us in terms of credit costs as we move forward. It is now down to approximately 2,400 crores. MSME grew by 3%. It should now start to grow, so we should start to see double-digit growth momentum in the business as we enter the second half.

The gold loan portfolio continued to grow. It is now 4.1% of the balance sheet. It was just a tad above 24,000 crores in Q2. We added approximately 320 gold loan branches during the quarter. The total network has now crossed 2,000 branches and stands at 2,022 branches. We remain quite clear about ending the year with close to 2,800 standalone gold loan branches.

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The rest of the business, as you can see, grew in the range of 20% to 30%. Overall, there was quite secular growth across all lines of business. If I look at gross loan growth, because the LAP book is declining, you should add another approximately 1,000 crores. That is virtually 37,500 to 38,000 crores, or 39,000 crores of book growth, that we are principally talking about.

These are fascinating numbers even for me, I would say. I did not imagine that we would be growing quarterly between 38,000 and 39,000 crores on a run-rate basis, because that has been the case for the last 2 quarters now.

I will go back to panels 5, 6, and 7 to quickly give you the highlights of the quarter. New loans grew by 11% to 13.5 million. There is some level of noise in the year-on-year number because last year the season was earlier, while this year the season is later. We are well on track to deliver between 60 million and 62 million new loans in FY27.

We added, as I said, 4.42 million new customers during the quarter. We are clear about adding between 18 million and 20 million customers to the franchise in FY27. The overall franchise stood at 129 million and the cross-sell franchise stood at 82 million.

The liquidity buffer remains strong at just a tad below 20,000 crore. Cost of funds came down sequentially by 9 basis points and came in at 7.31%. The deposit book is at 14%. We increased rates in Q2 and hopefully we will see some momentum here as we move forward.

Opex to total income improved to 33%, despite the continued investments that we are making in gold loan branches, MFI branches, and technology transformation. We remain comfortably placed to deliver a 25-to-40-basis-point improvement in FY27 in opex to NTI.

On credit quality, loan loss to average AUF improved to 1.56% from 1.88% last year. As a measure of prudence, we recognized a macroeconomic overlay of 337 crores. Excluding this provision, loan losses and provisions actually decreased year-on-year by 12%, and loan loss to average AUF in the process would be 1.32%.

You may see here that stage 2 and stage 3 assets actually increased by 1,601 crores. This includes a 1,047-crore increase in stage 2 in the gold loan business due to the short-tenor schemes that we had launched when the new RBI guidelines came out, and that has had an impact.

We have stopped offering short-tenor schemes since August. We do not see any credit cost impact as a result of this. Of the 1,099 crores, which is close to 1,100 crores, that came from gold loans in stage 2, 550 crores has already been resolved and has flowed back to stage 1.

So, it is a transient movement for a quarter. That is really what we see it as, and we do not see any impact on credit cost or otherwise in terms of auctions and so on.

Vintage credit performance across our 3MOB, 6MOB, and 9MOB continues to reflect significant and sustained improvement in the portfolio, and we are reasonably comfortable with the credit cost outlook for FY27. Of course, we remain in a VUCA world, so we will take one quarter at a time.

If the first half is any indication, we remain comfortably placed on credit quality at this point in time for FY27. PCR remained strong at 60%. GNPA and NNPA came in at 1.06% and 42 basis points. I

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have already discussed ROA and ROE, at 4.6% and 20.6%.

Let me now cover the capital raise, because that is something that we announced recently. On October 1, as you are aware, the board approved, subject to shareholder approval, 11,700 crores through a QIP and preferential warrants by Bajaj Finserv to the tune of 5,800 crores, in accordance with and subject to approvals by the shareholders.

The board's decision to raise additional capital is principally driven by the growth story of India and of the company and its subsidiaries. That is the principal reason why we are raising capital. We are also very clear that we can do this without diluting the sustainability of the medium-term ROA and ROE goals that we have outlined to shareholders. We are looking to raise capital primarily for growth as we move forward.

Quickly, let me now cover panels 9 to 11. I will not cover too much, but we continue to double down on Finmaya transformation. We have now scaled our AI unit to approximately 328 people, given the breadth and depth of the work that we are doing.

Facial-recognition camera technology is now deployed in close to 535 stores and 1,163 service branches. We are getting a lot of learnings from these deployments. AI bots are now handling 75% of DIY customer-service volumes. Disbursements, as you can see from the numbers, grew year-on-year by 111%.

As we deepen our understanding of enterprise AI and deploy it, we gain experience and learnings. We are becoming more effective both in terms of cost and in terms of the experience of the customer and the employee.

Overall, the company now has approximately 129 agents and 65 agentic applications. We are well on track to deliver approximately 180 agentic applications and 600 agents for the year.

I will not cover panels 13 and 14. The only point I will cover on panels 13 and 14 is that we have launched our first custom risk model from a risk-management standpoint. We will book 500,000 accounts in our B2B business, assess their 3MOB performance, and based on that, start to evaluate the model for other lines of business.

It is in a testing phase. Overall, from a modeling standpoint, it does show a 15% to 20% improvement in terms of our risk outcomes. Let us see how the models perform in reality, and based on that we will take a view.

We are working on our B2C model as well at this point in time. Subject to the 3MOB performance, we would launch our B2B-B2C model as well if the performance by January for our B2B business holds, based on our assessment at this point in time.

Quickly, on BHFL and the subsidiaries, panel 14: it was a good quarter for them as well. Their disbursements and AUM grew by 25%. Sub of loans, which are affordable loans, crossed 500 crores in monthly disbursements. Opex to NTI continues to improve. We continue to make progress; on a year-on-year basis, it improved from 19.7% to 19.1%, and their PAT grew by 18% despite the very intense competitive environment that they continue to face.

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ROE improved as a result of improving leverage, to 12.7% from 12.2%, and their asset quality remained healthy. BFSL had a good quarter. PAT grew by 36% and it added 121,000 customers.

To summarize and then open it up for questions, I would say that the first half principally demonstrates the strength and scalability of our business model. At this scale, to grow by 26% is good growth. Underlying credit remains strong while maintaining credit cost. As I have said, it is likely that, in the four years, this will be one of the lowest years in terms of credit cost, and we are well on track for that.

Finnaya is moving rapidly from individual deployments to enterprise-wide transformation, both for employees and consumers, as we move forward. That is all from me.

The last point is on portfolio quality, which is covered in panels 59 to 62. We remain green on all business metrics. You may see a gold loan variation there, but I have already explained the point. As I said, 55% has already been resolved, so it is a transient point.

With that, I am happy to take questions.

**Operator:** Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on the touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets.

**Operator:** While asking a question, please limit yourself to one question so we can accommodate as many participants as possible. We will wait for a moment while the question queue assembles. The first question is from Nirav Peeran Engineer from CITIC International. Please go ahead.

**Nirav Peeran Engineer – CITIC International:** Hi, team. Thank you for taking my questions, and congratulations on the quarter. I may ask two questions because they are short to answer. First, on gold loans, why are you not offering short-term gold loans? Is that not easier from an LTV perspective because you are discounting only, say, 3 or 6 months of interest versus 12 months?

**Management:** Go ahead with the second one, Nirav.

**Nirav Peeran Engineer – CITIC International:** The second question is about two-wheeler customers. Historically, you have been uncomfortable cross-selling other loans to two-wheeler customers. They were never part of the cross-sell franchise. Given that your open-market two-wheeler customers have significantly better asset-quality performance, do you consider them to be part of your cross-sell franchise?

**Management:** That is fair. Sandeep, do you want to answer the gold loan question?

**Sandeep:** Nirav, the exact issue we faced in Q2, and the reason stage 2 has gone up to about {? 1,100 crores ?} in the gold loan business, is related to short-term schemes.

For a customer to come to the branch every 3 months to make full payments or pay interest, coming in for a rollover becomes very cumbersome, and the customer can accidentally become delinquent. Once the customer becomes delinquent, the only way to resolve the case is by making

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the full payment of principal and interest, which is not necessarily the most appropriate thing for the customer.

As a result, I think what is more appropriate, and what we are working on as Bajaj Finance Ltd., is to offer a longer scheme, such as the 12-month scheme that we have always offered. For customers who want to pay regular interest, we would give them the option of making monthly and quarterly interest payments as an additional option.

This will solve both issues. One is that the customer can make frequent interest payments and reduce the obligation. At the same time, the customer does not have to come to the branch repeatedly for the rollover of the loan.

**Management:** On two-wheelers, the answer is yes, Nirav. The answer is yes because we are clear that we want to run open-architecture two-wheeler lending at 30% to 35% of the credit cost. The customer segment principally does not change, so the fundamental answer is yes, and the pool is likely to follow. That is how I would answer it.

You had a follow-up on the first question, I think.

**Nirav Peeran Engineer – CITIC International:** Yes, the only follow-up was: what percentage of gold loan customers would take bullet loans versus quarterly or monthly instalment loans? I would presume that the bulk of them would be bullet loans.

**Management:** Nirav, you are right. Today, 99% of them are bullet loans with bullet repayment. They can continue to take bullet loans for 9 to 12 months. They can always come and prepay earlier, because there is no friction or prepayment cost, as you said. They can always come in 3 or 6 months.

It is better not to push the customer into delinquency and then auction the collateral. The wisest thing to do is to give the customer a longer tenor and the flexibility to repay rather than anything else. That is at least our assessment and learning, and we will principally stick to that.

**Operator:** Thank you. Nirav, I will request you to come back for a follow-up question. Participants, please limit yourself to one question per participant and rejoin for the follow-up. The next question is from the line of Chintan from Autonomous. Please go ahead.

**Chintan – Autonomous:** Thank you. I have three or four questions, so I am trying to prioritize. Let us go with asset quality. In MSME, you have seen GNPA continue to deteriorate. What sub-book is driving that? Also, broadly, with GNPA going up by 10 basis points in the quarter, which areas are contributing to that? You have talked about gold, but are there any other areas where we should be thinking about stress building?

Related to that, how should we think about consumer debt-to-asset capacity? In which areas do you think consumer leverage is still low enough for you to lend comfortably? It does feel that, coming out of the last cycle, consumer leverage was high. It has slowed down a bit, but, as you highlighted in the last quarter, not by much. I am wondering how you think about this philosophically.

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**Management:** Your first point is on asset quality. Clearly, specifically on MSME, we are seeing nothing other than growth. There is no denominator growth. You should actually see this number as a peaking number. It is pure mathematics and nothing else. That is how I would answer the point on flat MSME growth.

You are likely to see GNPA and NPA go up. When we look at the 3MOB, 6MOB, and 9MOB, we are looking at numbers principally closer to 2019. I have articulated many times that they are better than that. As Siddharth is saying, we are seeing better performance than that, actually.

We are very comfortable with the MSME 3MOB, 6MOB, 9MOB, and 12MOB book because we started changing the nature of origination from last July onward. That is the first point on your first question.

On your second point, we do not foresee or see any blind spots at this juncture. It was a learning that we realized sometime in August. In April, based on the changes that came in from a regulatory standpoint, the entire industry launched 3-month schemes, and we also launched 3-month schemes. It is a learning we have taken and we changed track quickly.

It has not been an easy decision, and I must make that point to you, because the industry continues to offer 3-month schemes. We do not want to push the customer into default or delinquency, and the regulations and guidelines are very clear: if the customer moves into default, the customer has to pay fully. Otherwise, the customer does not return to regularization.

There are other unintended consequences for a non-monoline company. I then cannot lend to that customer for any other product as well if the customer moves into delinquency. We do not want to be in that position.

On your third question, which was related to consumer leverage, consumer leverage remains a consumer-by-consumer consideration rather than a generic point. As you are aware, we continue to see consumer debt-to-GDP grow a little slower, but it continues to move forward.

We have been in the public domain over the last 3 years stating that 3PL is a single univariate metric that continues to trouble us. We have brought that down from 14% to 7% in terms of origination. My mandate to the team is to bring that down to 3.5% within 6 months. That is where we are principally headed.

Despite what I have said, I am looking at an ultra-low credit metric because we have seen that a customer with multiple points of leverage has a higher probability of moving into default. So, we will keep bringing down the 2PL and 3PL numbers.

Business is business. Further, we will reduce it by half, or we will halve it again by March, as Siddharth is saying, by February. That is our proactive stance. It is a bottom-up, customer-by-customer approach, with leverage as a central dimension of our risk-assessment process.

**Chintan – Autonomous:** That is fair. On the 10-basis-point increase in GNPA, it is in a number of areas that are adding up to it. Clearly, your target metric is 1.4%. I do not want to make a big issue of it, but there are a number of areas showing an increase. That is why I asked the standard question

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about GNPA.

**Sandeep:** Chintan, I think the right metric from a comparison perspective, when comparing Q1, Q2, Q3, and Q4, is to look at stage 2 and stage 3 together. That actually improved from 1.9% to 188 basis points, excluding gold loans, as we have also communicated in the presentation.

The movement in GNPA as it goes up in Q2 is mainly on account of the number of days being higher in Q2 compared to Q1. This means that one additional month of GNPA flows into Q2 compared to Q1, and that has always been the case. If you look at the past record as well, that is how the numbers appear.

This is mainly on account of the number of days. It has nothing to do with portfolio quality or any kind of stress building up in the balance sheet.

**Management:** The fourth quarter is the lowest.

**Sandeep:** Yes, because the number of days is lower. There are 90 days due to February.

**Chintan – Autonomous:** Thank you for that.

**Operator:** Thank you. I request all participants to please limit themselves to one question per participant. The next question is from the line of Kuntal Shah from Oaklan Capital Management. Please go ahead.

**Kuntal Shah – Oaklan Capital Management:** Hi, team. Thank you for the call. My specific question is: what are the reasons for this overlay, and how does it relate to earlier overlays? Is it a permanent change in the ECL model? How should we think about the frequency and size of such discrete overlays going forward versus embedding them in the ECL model itself? How should we visualize it?

**Management:** This is over and above the ECL model, Kuntal. That is the first point. That is why it is called an overlay. I think that is the first clarification from a technical standpoint. I will let Sandeep respond.

**Kuntal Shah – Oaklan Capital Management:** Is it a policy to have an overlay in good times and release it in bad times?

**Management:** I will make one point before I answer that. Is it to build resilience? The answer is yes.

The fundamental reason for creating the overlay is not because we see stress building. I want us to always remember that this is bulletproofing of the business; it is for resilience. We are a cyclical business. We will see credit cost go up marginally and credit cost go down marginally.

It is for those marginal periods when we move to 2%. We went from a low of 1.75% to a peak of 2.15%. Let me give you a cycle view of the firm. Someone could articulate or argue that we go from 1.75% in a low period to, historically, 2.15%. The number would reduce further, as I have said. If you look at the last 2 years, that has been our cyclicity as a firm.

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We would like to strengthen that further and narrow the band further, so that in a cyclical business we can reduce cyclicity. That is what we call resilience, and that is how we are thinking about the business model. Sandeep, do you want to add anything else?

**Sandeep:** Kuntal, very clearly, we continue to base our model on empirical data, which is what anybody would build a model on. That is the first point.

The second point is that, while we look at forward economic factors and guidance to assess what kind of overlays one should have from a macro perspective, which is also an internal part of the ECL framework, at times it fails to capture the potential effect of what is happening in the real world.

Let me give you a clear example. We are seeing El Niño in the country, and we are at 87% monsoon at this point in time. Oil prices are constantly hovering at 100 to 110 dollars. The cascading impact of this on the economy, interest rates, and inflation is very difficult to factor into the macro model.

That is where management judgment comes into the picture. Let me also be very clear that it is not a perfect science. It is a management estimate of which portfolios could be impacted.

At this point in time, we believe that unsecured businesses could be impacted, barring salaried customers, because salaries may not be impacted significantly by oil prices and inflation. However, self-employed customers could really be impacted.

We have conducted stress testing on those customers and proposed higher provisioning for customers who are in stage 1 in the unsecured, non-salaried portfolio. We have also conducted stress testing of the stage 2 outstanding of customers and proposed additional provisions there as well.

We did not conduct specific stress testing on stage 3 because, if you remember, in Q3 last year we had already introduced LGD flooring. That captures significantly higher provisioning coverage than what is required for the kind of portfolio that we manage.

Keeping all of those things in mind, we review this on a quarterly basis. Based on the evolving and emerging situation, we decide whether there is a need for us to have overlays.

**Management:** Technically, statistical modeling could argue that the 60% floor probably needs to be released today. Let me make that point. You might say that this means you have even more than this; the answer is probably yes. However, we are focused on resilience.

I want to make one last point, Kuntal. Sometime very soon, we will cross the point at which the largest non-bank merges into a bank. We are mindful of this. We will be proud of that moment when it happens, but we are also mindful of the importance of resilience in our balance sheet, which is needed to continue to grow from there and get to a...

**Management:** For the last LRS, at the 11 lakh crore number by FY30. That is all I would say from the standpoint of my last point.

**Kuntal Shah – Oaklan Capital Management:** No, thank you. This really helps. Can you quantify the current stock, as of today, of macro and management overlays?

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**Management:** The overall macro provision stands at about 226 crore rupees, if my memory serves me correctly. That is the number.

On the management-overlay side, we have created a provision of 512 crores. We took 185 crores in the last quarter and 327 crores in the current quarter.

Apart from that, the LGD flooring that we have created would also carry an additional provision of between 350 crores and 500 crores. That provision is already sitting in stage 1, stage 2, and stage 3 assets, mainly because the actual empirical data may suggest a lower number, but because we have applied the principle of an LGD floor, we continue to make provisions at a higher rate.

That number could be in the region of 350 crores to 500 crores. That is our estimate at this point in time.

**Kuntal Shah – Oaklan Capital Management:** No, thank you. This reflects a good conservative stance, and thank you for the clarification.

**Management:** Thank you. I will join the queue.

**Operator:** Thank you very much. Participants, please limit yourself to one question per participant. The next question is from the line of Kunal Shah from Citi. Please go ahead.

**Kunal Shah – Citi:** Hi. The first question is on growth guidance. Last time, you said that you would review it after the second quarter. You said it was fascinating to see almost 26% growth, and the capital raise is also for the growth story. What would the growth guidance be from here onward, for the near term and the medium term?

The second question is on overall margins. Cost of funds is down by 9 basis points, but given that we are in a rate-hike scenario, we have still seen some margin compression, and NIMs on a calculated basis appear to be down. How should we think about margins once our cost of funds starts to increase?

**Management:** For FY27, with 2 quarters gone, we are seeing the early onset of the festive season in the first 9 or 10 days. I would say that we should probably deliver between 26% and 27% growth for the full year.

For the medium term, we maintain guidance of 23% to 25%, with one year lower and another year higher. That is the second point.

On NIM, clearly, at this point in time, we are factoring in 2 more increases in the current year. That would take rates to approximately 6%. You would see marginal moderation in NIM as you move forward. We should be able to manage it comfortably.

Part of that would come from opex to NTI, and part of it would come from credit costs, as you are seeing. Overall, we should be able to continue navigating profitability and return ratios.

**Kunal Shah – Citi:** The moderation in NIM would be only marginal. Is that what you are suggesting?

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**Management:** Yes, at this point in time, yes. You have seen a 10-to-12-basis-point compression from Q1 to Q2.

**Management:** H1 NIM over March is about 5 basis points lower. Q1 was marginally higher, while Q2 was 10 to 12 basis points lower than Q1. So, we are seeing moderation in NIM. It remains manageable, and we remain confident.

**Kunal Shah – Citi:** So, from the Q2 level, there will not be much of an impact on margins?

**Management:** I am not saying that. We continue to remain in a rising cost-of-funds environment, and we are mindful of it.

In the last quarter, we undertook a significant amount of interest-rate hedging. That brought down the effective cost of funds in the last quarter at the BFL and BHFL levels. That is what you would have seen in BHFL as well.

However, as the repo rate goes up, it will also have a cascading impact in Q3 and Q4. At this point in time, I would factor in marginal additional compression versus the guidance we gave at the beginning of the year.

So far, we are 5 basis points down versus the beginning of the year on a first-half basis. I had given guidance of 10 to 15 basis points of compression in the current year. I would say that we should carry a marginal headwind to that number.

**Kunal Shah – Citi:** Perfect. This is useful. Thank you for answering all the questions.

**Management:** Thank you, Kunal.

**Operator:** Thank you. The next question is from the line of Viral from IIFL Capital. Please go ahead.

**Viral – IIFL Capital:** Thank you for the opportunity. I have two parts to this question. The first is on fee and non-interest income. We are currently running at a 20% growth rate, significantly ahead of what we have guided.

The other part is that there are some headwinds or overhangs on this number, which may not be relevant from this year's perspective. One is related to Flexi, and most importantly, the insurance business. How do you see this from FY28 onward if the current insurance norms remain as they are? We may also receive some benefit from MDR on UPI, given that we can finally monetize the entire network that we have built. How should we think about this?

**Management:** H1 non-interest income has grown by 20%. In general, our guidance was 16% to 18%, but, as we outlined in Q1, and as is also true for Q2, this was because of stronger growth in our B2B businesses.

The overall fee base is diversified. It includes some discussion papers that are in the public domain and some draft regulations. We are continuing to strategize.

We remain comfortable that, over the longer term, we should be able to sustain 15% to 18% fee-income growth at this juncture, given that both papers are regulatory in nature. We have a

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strategic thought process that we are working on, which we will deploy as the regulations come through.

At this juncture, it is very premature to say more, but we are working on it as management and have our plans ready.

**Viral – IIFL Capital:** Understood. One more follow-up on one of the previous questions, {? Rajiv ?}, regarding gold loans. I understand that you are focusing on a longer-tenor product while keeping the customer's interest in mind. However, that will also effectively curtail our LTVs, or rather the ticket size that we can offer to the customer, because of the embedding of the entire interest in the loan. Do you think this can be a challenge from a customer-acquisition standpoint in the near term, given that competitors...

**Management:** We have to run a business keeping in mind the interests of the customer, the interests of the company, and long-term sustainability. That is how we build businesses.

We are very clear that a short-tenor loan does not work for the customer, does not work for the company, and is not sustainable.

We remain fundamentally focused on organic expansion. First, there is distribution expansion. Second, there is mining our franchise. Third, as I articulated last time, there is mining our franchise through digital infrastructure, which is a differentiator. That is how we have chosen to build the business.

We remain comfortable that we can navigate the competitive intensity without compromising the margin profile of the business. Given the intense competitive activity, there is significant noise around pricing. This business is fundamentally supposed to be a profit builder. That is the goal of the business rather than being an AUM builder.

That is how we have organized ourselves in terms of the business model, and that is what we intend to remain focused on, irrespective of the noise around what it means.

We make the choices. I am very clear about the businesses we build. We make the choices, even if that makes it a little harder or takes a little longer to play through. We will take the long route.

From a customer-centricity perspective, that is something we laid out very clearly as part of last year's LRS. We are very clear that we will do what is right for the customer.

We believe that, structurally, a longer-tenor bullet-repayment model serves the customer better than a short-tenor model, which may provide more LTV but eventually puts the customer into a default position. That is not necessarily the objective of working with customers in the gold loan business.

We are very clear that, irrespective of what the market does, we would prefer offering the customer a slightly longer-tenor scheme with a bullet-payment option that the customer is used to. Even if it results in a smaller or slower route of growth, we are comfortable with it.

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**Viral – IIFL Capital:** Understood. One last point: I think you mentioned that—I am sorry, I think this is just completing Kunal's question. Kunal asked about growth, and you responded on growth and margins. One piece that remains is on credit cost. Given that, including overlays, we are running close to the lower end of your guidance, how should we foresee the rest of this year?

**Management:** For the rest of the year, you should look at it in the same corridor. In a similar corridor. Thank you.

**Operator:** Thank you. The next question is from the line of Avinash Singh from Emkay Global. Please go ahead.

**Avinash Singh – Emkay Global:** Good evening. First, on the capital raise, you have outlined the growth rationale. However, if I look at your profitability, the possible stake sale from your subsidiary Bajaj Housing, and the timing in the past at the Tier 1 level when you had announced a capital raise, everything looks much earlier or more prudent than necessary.

What exactly is the kind of growth you are anticipating? There are many questions, including regarding your current Tier 1 level. So, why is there such a large capital-raise plan at this stage?

Second, on insurance, if this regulation comes through, would you remain open architecture, or would there be some reconsideration regarding distributing your own group's products? Irrespective of the commission regulation, would you remain open architecture?

**Management:** I will take the second question first. We will wait for the final regulations before making a decision. It is a discussion paper that has to be converted into draft regulations and then into regulations. There is no point in speculating at this point in time.

As I said earlier, we are creating multiple scenarios for ourselves as a firm regarding how we will navigate while protecting our fees and margins. That is the only point I would make. We are clear about our medium-term guidance on fees and margins.

The second question is principally about capital. As I said, it is principally for growth. We added close to 38,500 crores in the quarter itself, with 26.5% growth.

I am not changing the longer-term growth guidance of 23% to 25%. It is important to make that point clear, because that is a good number to compound at the levels at which we are operating. In one year we may grow by 27%, and in another year we may grow by 23%, but long-term compounding is what we are principally focused on, based on the underlying quality and margin profile of the business.

At a philosophical level, that is the point I want to make.

The third important point, which we have been covering in our investor deck for a long time, can be divided into two parts. As you said, we could use the proceeds to dilute our stake in BHFL rather than raise capital.

We raised 10,000 crores 3 years ago. Since then, by the end of this year, the balance sheet would have grown by 90%. So, we should actually be raising 20,000 crores. We are raising, or looking to

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raise, 17,500 crores. That is the first point.

In absolute terms, the number may look large, but relative to the previous raise and the balance-sheet growth, and during this period in which we have continued to deliver a strong core ROE of between 19% and 20%, the size or quantum is actually smaller than what we raised last time.

We could very well raise part of this through dilution in BHFL. We have 3 years' time. That is the first point, and we remain on track within that timeline.

We have to do this, and this would also give BHFL more time to transition its business model from being closer to super-prime and prime to prime and near-prime. It would allow BHFL to migrate its business, which would eventually be more beneficial to BFL shareholders, because at the end of the day we intend to remain a 75% holder. Today, we are an 87% holder.

When we take a longer-term view and look at the transition that BHFL is undergoing at this point in time, we think we want to give them a little more time to repivot the business, and they are well on track to do so.

That is why I articulated that Sub of loans are now 500-odd crores a month. I think that by the end of the year they would be at 800 crores a month. That is really...

**Rajeev Jain – Vice Chairman & MD:** ...and should continue to probably get to 1,300 to 1,400 crores a month sometime by the third quarter of next year. That is how their plan is organized.

Hopefully, that answers all 3 questions in terms of the quantum, why we are not raising capital through BHFL dilution, and the leverage point.

We show through our resilient business model that we have historically raised capital while continuously bringing down the level at which we raise capital. We used to raise at 6 times leverage; our last raise was at 5.4 times.

**Management:** 5.4 times.

**Rajeev Jain – Vice Chairman & MD:** 5.4 times. Given the size of the firm and the sustainability of the business model, we think we will probably start raising at between 5 and 5.5 times. So, we will lower the corridor from 5.5 to 6 times to 5 to 5.5 times. We are currently at 5.1 times.

That is the thought process behind wanting to raise capital, become more resilient, and make the balance sheet truly bulletproof. That is the principal objective.

**Kuntal Shah – Oaklan Capital Management:** Thank you. On the RBI revolver loan, is there any update? Based on the amendment prescribed, what could be your exposure that falls under the definition of a revolver? Thank you.

**Rajeev Jain – Vice Chairman & MD:** It is a draft, as you are aware, and comments have been submitted by everyone. We hope that the RBI will find a middle path that creates sustainability on one hand, protects customer centricity on the other, and supports innovation for non-banks going forward.

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That is my expectation. We will see what it turns out to be.

Let us assume for a moment that the RBI decides on a complete ban. There would be a transient impact on AUM and marginal compression in NIM and profitability. We will abide by what the RBI states and work accordingly.

We have already begun launching a set of different variants of term loans on November 1. These will not allow withdrawals, but they will have some more attractive features to ensure that we can find a middle path in the term-loan structure.

That is something we are also looking to launch as a firm by November 1. We would like to act as a firm rather than wait. At the very least, it creates greater diversification and resilience. At most, it augments growth.

Either way, we are in a better place than if we simply waited.

**Kuntal Shah – Oaklan Capital Management:** Thank you.

**Operator:** The next question is from the line of Abhishek from HSBC. Please go ahead.

**Abhishek – HSBC:** Good evening, and congratulations on the quarter. One question is on gold loans. One of your peers said that, in this calendar year, around 4.5 lakh crores of disbursements have been made to customers who were deeply delinquent, meaning 90 DPD or more. What are you seeing if you have looked at this number? In your own disbursements—

**Rajeev Jain – Vice Chairman & MD:** Sorry, repeat the number, Abhishek.

**Abhishek – HSBC:** 4.7 lakh crores of disbursements so far in the calendar year.

**Rajeev Jain – Vice Chairman & MD:** Okay.

**Abhishek – HSBC:** In gold loans. What are you seeing in your numbers? Are you seeing this in the overall industry numbers? Are you seeing a progression of your customers into stage 2 or even stage 3, apart from the 1,047 crores that you mentioned as being related to short-duration schemes? Is the underlying trend worsening, or are you seeing payment delays or anything of that sort?

**Rajeev Jain – Vice Chairman & MD:** The appropriate metric is not disbursements in this business. The average book itself is 6 to 7 months. That is the point to remember.

Disbursements are a vanity number. AUM is the appropriate number. If you ask me, the better number for measuring core underlying growth is tonnage. We actually track tonnage. Is our tonnage growing or not?

That is the fundamental and real metric, because gold prices can go up or down. The franchise value is tonnage, or growth in tonnage, to determine growth in the business. The second metric is AUM. Disbursements do not matter. Disbursements are actually quite inconsequential.

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Coming to delinquency metrics, we do not see any issue. In that sense, this stage 2 movement is a learning for us. That is why we have taken what I would call a tough action. This is how the business is to be organized.

I must say, for the record, that gold loan companies in general are not organized this way. They are comfortable with stage 2, wait for things to move into stage 3, and then conduct an auction.

Our general assessment is that an auction is not the appropriate metric. An auction is not liked by any constituent, to put it simply. It is better to manage through risk rather than manage through auctions. That is the position we have taken, and that is how we will build the business.

We remain committed to continuing to grow the business organically, using our franchise and our digital infrastructure.

**Abhishek – HSBC:** Rajeev, I think the intent was to understand what kind of tonnage or what kind of customer is receiving the loan. Are they already leveraged elsewhere, so that you do not see any adverse movement?

**Rajeev Jain – Vice Chairman & MD:** No, we do not see that. We are not seeing any movement in that metric. The average ticket size remains between 2.2 lakhs and 2.4 lakhs, and between 2.4 lakhs and 2.5 lakhs. We are not seeing any structural change from a year ago to today.

During this period, gold has dropped from 5,400 to {? 4,200 plus times ?}. We continue to hold LTV at 75% at this point in time, inclusive of interest, as Siddhant is clarifying.

**Management {? Siddhant ?}:** Inclusive of interest.

**Rajeev Jain – Vice Chairman & MD:** Inclusive of interest, as Siddhant is clarifying.

**Abhishek – HSBC:** Understood. The second question is on FY28 and FY29. There are a couple of revenue headwinds, such as the revolver component and the insurance component, and perhaps cost of funds as well.

Do you think you can protect operating profitability through cost or yield? Or do you think you can rely on credit cost, which is already running below your guidance for this year, to protect ROA? Which part of the ROA tree would you have more control over?

**Rajeev Jain – Vice Chairman & MD:** As management, we are paid to deliver long-term guidance. That is the first point I must make. We are expected to find answers.

Since COVID, there has been no dull moment. Either credit cost is going up, growth is stronger, profit is stronger, ROE is stronger, or ROE is weaker. We are now used to having no dull moment in building or running businesses.

For every action there is a reaction. For every action, we have to find a strategy. We are committed to finding a strategy, and we will hold to our long-term guidance.

It may mean acceleration in the top line. It may mean marginally slower fee-income growth. It may mean slower opex growth. It may mean—never say never—loan losses going further down, or it

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could have another outcome.

We have to deliver long-term profit growth of 22% to 25% to investors and ROE of 19% to 21%. We are reasonably agile as a firm. We will mobilize ourselves to deliver that.

Long-term shareholders may have to wait for a little while if the action required is very significant. That is all I would say. You may say that I am talking philosophy, but I am not talking philosophy. I have run the firm for 20 years, so trust me, I know what I am saying.

**Abhishek – HSBC:** Of course. Thank you for answering, and all the best for the future.

**Operator:** Thank you. The next question is from the line of Shreya Shivani from Nomura. Please go ahead.

**Shreya Shivani – Nomura:** Thank you for the opportunity. I have one question on your rural book, both consumer finance and personal loans.

The portfolio credit quality on slides 59 and 60 does not show a dramatic change for September. There has been a slight sequential uptick in stage 2 for rural consumer finance. However, can you provide some color on your thought process going into the second half for customers in the deeper pockets, given that we have heard some noise around droughts in certain states?

How are you thinking about disbursements in these segments? Any color on the geographical outlook would be useful.

**Rajeev Jain – Vice Chairman & MD:** It is a fair question. We have been watching the El Niño movement and tracking all 720 districts. We are aware of the districts across the country where drought has been declared.

We have been pruning the business while watching the monsoon movement for the last 3 to 4 months. This includes reducing the MFI business in some districts and reducing business in our B2B business, not only in rural areas but also in urban areas.

For us, urban means 500-plus cities. Anything beyond 125 cities, I would say, is rural at one level, at a fundamental level.

We act wherever 3MOB starts to move, which means it begins to reflect an underlying pressure point. As I said, actions have been taken. There is no dull moment. Do not believe that we are operating in cruise mode. We have been pruning the business.

As I said earlier, we have taken a proactive decision that we will reduce 3PL from its current level of 7% in terms of origination by half. In some businesses, the reduction will be to zero. Where we have no margin, it will be zero. That is the decision management has made, and we are acting on it.

We still think that, given our relative size compared with the size of the retail or total business in India, we can continue to grow comfortably.

We have acted. At this juncture, Maharashtra appears to be the most impacted, and Maharashtra is very large for every lender, whichever part of the business you consider, given its sheer per-capita

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income and its contribution to the country's GDP.

Certain parts are more affected than others. We have acted in some areas and are acting in others. We continue to take a whole host of actions to manage the pruned business and navigate through the situation.

**Shreya Shivani – Nomura:** Is the 26% to 27% loan-growth guidance inclusive of all these calibrations that you have already made and are planning to make for the year?

**Rajeev Jain – Vice Chairman & MD:** Yes, that is correct. Thankfully, I would say that it is still better than what we were originally estimating 4 months ago. From June to June, it was looking much worse, quite honestly.

Coming in at 87% LPA is a much better number than it appeared it would be, given the expectation of the biggest El Niño in 30 years. It is much better than expected to be, but some districts are much more affected than we would have liked.

**Shreya Shivani – Nomura:** I was just confirming whether the 26% to 27% loan-growth guidance is inclusive of all these calibrations that you have already made and are planning to make for the year.

**Rajeev Jain – Vice Chairman & MD:** Yes, the answer is yes.

**Shreya Shivani – Nomura:** Thank you, and all the best.

**Rajeev Jain – Vice Chairman & MD:** Thank you.

**Operator:** Thank you very much. Ladies and gentlemen, we will take that as the last question. I will now hand the conference over to Mr. Rajeev Jain for his closing comments.

**Rajeev Jain – Vice Chairman & MD:** Thank you. Good night, and we will speak soon at the end of Q3. Thank you all for your patient listening and for your questions. Thank you.

**Operator:** Thank you very much. On behalf of the Bajaj Finance Ltd. team, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines. Thank you.

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Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.