BAJAJ FINANCE LIMITED

6 April 2020

THE MANAGER, BSE LIMITED DCS - CRD PHIROZE JEEJEEBHOY TOWERS DALAL STREET, <u>MUMBAI - 400 001</u>	THE MANAGER, LISTING DEPARTMENT NATIONAL STOCK EXCHANGE OF INDIA LTD EXCHANGE PLAZA, C-1. BLOCK G, BANDRA - KURLA COMPLEX, BANDRA (EAST) MUMBAI - 400 051
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Dear Sirs/Madam,

Sub: Information under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015

With reference to today's Conference Call with respect to initial update on 4QFY20 and assessment of Covid-19 impact on the Company, please find enclosed herewith transcript of commentary given by the Management at the said call.

Kindly take the same on record.

Thanking you,
Yours faithfully,
For **BAJAJ FINANCE LIMITED**

R Vijay

Digitally signed by R Vijay
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Bajaj Finance Limited (BFL)

Q4 FY2020 business highlights and COVID-19 assessment call

6th April, 2020

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---------------------------------Start of commentary----------------------------------

Initial update on 4QFY20 and management assessment of Covid-19 impact on BFL

Good evening to all of you. I hope you and your families are safe. For today's call I will be assisted by Sandeep Jain, our CFO and Deepak Bagati, our CRO. Over the next 20 mins, I will briefly cover our assessment of Covid-19 on Bajaj Finance.

The sheer speed and ferocity of Covid-19 is unprecedented is to say the least. 1/3rd of the world population at this point is in full or partial lockdown mode, unimaginable less than 20 days ago. No continuity plans could have ever forecasted such a scenario. Nations, corporations and individuals are all faced with difficult choices on an everyday basis and have to make decisions using limited information or rely on common sense, in absence of any empirical evidence of such a crisis. At BFL, we are doing the same on an everyday basis.

My commentary over the next 20 minutes is sequenced as assessment of global economy, Indian economy, RBI actions, NBFC/HFC's needs, impact on Bajaj Finance and three possible business scenarios that we envisage at this juncture.

Assessment of Global economy

As you are all aware, Covid-19 is the single biggest health scare since the Spanish flu of 1919. We all experienced a big crisis in 2008, but it was a financial and economic crisis. It had material impact on financial wellbeing of nations, corporations and individuals. However, 12 years later, it's difficult to even remember fully that it happened. Since then, in general, economies, corporations and individuals have all experienced vast improvement in their overall wellbeing. That's my brief point – These are exceptionally tough times, but they too shall pass.

In the last 20 days, given the sudden shock of Covid-19, at this juncture, global economy in 2020 is expected to contract by 100 to 300 bps. This is against the growth forecast of 250 Bps prior to Covid-19 shock. This is also of course subject to all major economies taking bold fiscal measures. Every past economic crisis has seen strong fiscal stimulus from the government leading to a quick and strong economic recovery.

Assessment of Indian economy

While the first three quarters for the economy were really slow, various fiscal stimulus measures implemented by the government aided by good monsoon were beginning to result in revival of demand outlook by each passing month. Clearly, economy was on the mend.

Covid-19 has brought the entire economy to a grinding halt for both demand and supply. As a base case scenario, a 21-day lockdown along with the restart lag would result in one month of nation's GDP lost. For a $2.7 Trillion economy, that could mean $200-250 Billion of GDP lost. The lock down period could last even longer.

The cascading impact of Covid-19 lockdown and the likely social distancing norms are also expected to be material. If the measures are effective and there are no second round of large-scale lock downs, we should see some demand revival by July and hopefully full normalization by September/October 2020.

Clearly economy needs bold, innovative and unprecedented fiscal support to navigate through this sudden shock. The fiscal measures could be short term and need not be permanent. However, without bold fiscal support, revival process could take much longer.

Assessment of actions by RBI and NBFC/HFC's needs

Prior to Covid-19, overall systemic liquidity was already quite strong at nearly 300,000 crores. RBI, to provide confidence to financial sector, and to ensure sufficient liquidity decided to:

1. conduct targeted LTRO of up to 3-year tenor amounting to ₹ 100,000 crore,
2. reduce CRR ratio by 100 bps leading to release of ₹ 137,000 crore of primary liquidity and
3. Increase the limit under MSF from 2% to 3% leading to additional liquidity of ₹ 137,000 crore under LAF window.

Resulting in overall infusion of ₹ 374,000 crore of additional liquidity.

MPC continued with its accommodative stance and reduced policy repo rate by 75 bps to 4.40%, lowest ever repo rate.

RBI also took unprecedented measure of permitting moratorium for all loans (wholesale and retail) till May 31st. We applaud them for the same. However, there are moral hazards and potential behavioural issues by borrowers that we need to be careful about.

NBFC/HFC's needs

Given the severity of the shock, RBI may be required to take more such measures for NBFCs and HFCs including:

- a direct low-cost borrowing window from RBI for up to 12 months,
- across the board one-time restructuring option without classification change and
- freezing of DPD of the customer till the end of moratorium period.

These additional measures would significantly reduce the possibility of any systemic contagion in the financial sector.

Assessment of Bajaj Finance (BFL):

BFL has had very strong 3 quarters of FY20 with balance sheet growth of 35%, profit growth of 53% and stable gross and net NPAs despite a 16-year low GDP growth in FY20. Its return on assets (4.5%) and return on equity (22.0%) remain strong due to operating leverage gains, efficient risk management and tax cut.

The company has faced 3 big challenging situations in last 4 years, namely demonetisation in 2016, IL&FS failure in 2018 and a 16-year lowest GDP growth environment in 2019. Its entrepreneurial culture and distinctive business strategy ensured that the company profitably grew its businesses as it navigated through these challenges. While Covid-19 crisis by far seems the most brutal, we are confident that company's entrepreneurial culture and distinctive business strategy will help it navigate this once in a lifetime tough and challenging period.

In Q4, as you may have seen in our initial disclosure of Q4, despite a 10 days loss, the company continued to grow its assets, new loans, new customer acquisition and franchise in a steady manner:

1. Customer franchise grew from 34.5 MM as of March 31, 2019 to 42.6 MM as of March 31, 2020. During Q4, the company acquired 1.9 MM new customers. Had it not been for lock down, the company could have added another 350,000 more customers taking the total to 2.25 million new customers addition during the quarter.

2. New loans booked during Q4 FY20 was 6.0 MM as compared to 5.8 MM in Q4 FY19. The Company lost about 1.0 MM accounts on account of nationwide lock down.

3. Assets under management grew from ₹ 115,888 crore in the previous year to ₹ 147,500 crore as of March 31, 2020. The company was well on course to deliver an AUM of over 1,52,000 crores until the lockdown was announced.

Let me now talk about how we are approaching this crisis. Attitudinally, we have the option to be optimistic, pessimistic and cautiously optimistic. We as a company are choosing to be cautiously optimistic. Financial institutions have a responsibility to remain open for business at all times. It is extremely important at this juncture for us to hold our nerve and make prudent decisions in the long-term interests of the company.

Clearly protecting the balance sheet should be everybody's primary goal at this juncture. There are 4 key aspects to balance sheet protection in the current situation namely, liquidity, capital position, strong loss provisioning and deposit franchise. Let me take them one by one.

1. **Liquidity**
   Company ended March 31st with consolidated cash position of ₹ 15,800 Crore. Our CP borrowing is less than 2,000 crore and our maturities over the next 3 months are lower than the incremental inflows expected over the same period. The Company has undrawn lines of approximately ₹ 2,500 crore as of 31st March.

2. **Capital adequacy**
   We are very well capitalized with a 25.0% capital adequacy ratio. At this point, we are amongst the most capitalized companies in financial sector among large companies.

3. **Loss Provisioning**

   Historically, company has continued to remain extremely prudent in making provisions for anticipated losses. Given the unprecedented and sudden shock of Covid-19, company is considering accelerating provisions against identified large accounts as well as a onetime provisioning for potential impact of Covid-19. This will create some degree of suspension in the balance sheet at this stage.

4. **Deposit Franchise**

   Company ended 31st March with deposit franchise of ₹ 21,400 crore with only 28% contribution from bulk deposits.

That's on the balance sheet, lets now talk about P&L. Given the complexity of P&L, we have deconstructed the same as Demand, Total income, Operating expenses and Credit costs.

Demand

As mentioned earlier, prior to Covid-19 shock, the economy was already on the mend. We are hopeful that if the lock downs are not extended and we do not observe another national lock down sometime over the next few months, we could see demand revival in our categories starting June/July and restore to reasonable normalcy by October. We will cover 3 different demand scenarios in a few minutes. However, given the diversity of our businesses, let me give you some texture by categories of our businesses:

Two-wheeler and B2B business (19% of AUM as at December 31, 2019) – All parts of the businesses are currently in lockdown namely offline and e-com. Some portion of the lost sale could be recovered in the balance fiscal. Retailers, in general, were well stocked with a 30-45 days inventory prior to lockdown. Q1 disruption however will be more severe as it will only be a 60-day quarter. Demand outlook for the balance fiscal will be a function of length and intensity of lockdown. This business is highly granular with its presence in 2,300 cities and towns in India.

B2C (20% of AUM as at December 31, 2019) – In this business we lend to existing customers with good repayment track record with us and with the banking system. Subject to credit performance reverting to pre Covid-19 levels over the next 4-5 months, we can quickly go back to growth mode in this business. Q1 loss of sale can be recovered in the balance fiscal. This business is as granular as B2B and it is likely that smaller markets may recover lost sale faster than larger markets.

MSME (13% of AUM as at December 31, 2019)– This business has been under severe strain since introduction of GST which further aggravated last year due to a slow economy. We have continued to grow during this period as a result of our focus on professionals and our geographic expansion. Covid-19 is likely to have a very severe impact on all aspects of this business including small businesses, professionals and tier2/tier3 markets. Demand will be high as small businesses will want to kickstart their businesses, but lenders are not likely to be forthcoming. Credit guarantee support from government can ensure lenders come back to lend early. In the absence of that, growth recovery could take 12-15 months' time.

Mortgage (30% of AUM as at December 31, 2019) – Sales process in mortgages is a 30-45 day walk and thus, Q1 will be a 60-day quarter only. Some part of lost sales can be recovered in the balance fiscal. The challenge in this business is likely to be pricing pressure from banks. Risk is not likely to be a challenge.

Rural (9% of AUM as at December 31, 2019) – Recovery in rural is likely to be fastest as rural was already doing very well given strong monsoon and stimulus by the government. Rural B2B is likely to come back to normalcy fastest while B2C will revert to normalcy in line with urban B2C.

Commercial (4% of AUM as at December 31, 2019) – Given the environment and potential impact on commercial clients, we will essentially focus on existing customers for the foreseeable future.

Loan against securities (5% of AUM as at December 31, 2019) – Given the stock market volatility, Loan against securities portfolio has seen a steep reduction in the last 30-45 days. The portfolio is currently at a margin of 50%. The recovery in this business will be a function of market. We are currently focussed on building retail brokerage business.

Total income

The company, due to its very strong orientation to profitability and ROE discipline, retail nature of its business, fee orientation and cross sell focus, has significant margin of safety across its various revenue lines. Given its strong liquidity and distinctive credit standing in the market, it will be able to command better pricing in debt market as Covid-19 shock normalizes. However, company will continue to carry extra liquidity resulting in an extra cost of carry in its cost of funds for next six months.

Operating expenses

Clearly, operating expenses (Opex) is something over which we have greater control. The company has created a plan to prune 7-8% of its total operating expenses as the lockdown lifts. As an immediate measure, we have decided to hold all our fixed costs at current levels till October. However, as a measure of prudence, we will be further increasing investments in collections infrastructure. We have also planned for a harsher view on operating expenses if the demand scenario is weaker than the scenarios that I will be outlining later.

Credit Costs

Before I come to credit costs, let me reinforce that we are a risk driven business. Except for our 2-wheeler business, company is focused on mass affluent customers earning between ₹ 5-6 lacs per annum in urban India and ₹ 3-4 lacs per annum in Rural India. 65-67% of our customers are salaried and 33-35% are self-employed. 65% of our customers have bureau scores of 750 and above. Rest have no bureau score and mainly come from 50+ markets in India where bureau hits are low due to low penetration of financial products. The SMEs that the company targets range from ₹ 5-16 crore of annual turnover. The commercial clients we lend to are in general BBB+ and above clients. The home loan clients are only salaried with annual incomes of ₹ 11-13 lacs. Loan against properties are given self-employed with average exposure of ₹ 60-75 lacs. The developer finance portfolio is less than 1% of total book. In loan against securities business, we deal with average exposures of ₹ 3-4 crore.

Two-wheeler business is a captive business and deals with mass customers. Given the customer segmentation, this business is vulnerable to shocks as experienced in demonetization as well.

On credit cost, I must state that the situation at this juncture is very fluid. I will outline the way we are observing it first-hand.

Our assessment is that customer right now is in a state of shock. None of us have ever worked from home or ever faced such a long and sudden lockdown. Nor has the economy ever been stalled for such a long period in such a sudden manner. The impact clearly is very brutal. Given the unprecedented and sudden shock, customer is clearly focused on saving / holding cash. In my 25 years of experience, behavioural science has never been an area of attention from risk management standpoint. It is so now. It is our reasonable assessment that as the customers and businesses get back to work, we should get back to normalcy in a short period of time. We are confident that the economy has the resilience to navigate a 21-day lockdown. We experienced the same during demonetisation as well. This of course seems bigger and has more uncertainties.

We are currently observing, based on the very early bounce data that the net bounce rates are up 2-2.5X across all customer segments whether it is salaried, self - employed, doctors, professionals and SMEs. 60% of these customers have bounced for the first time. No part of the economy seems untouched by this unprecedented sudden shock. The commercial customers, despite their better rating, are proactively seeking moratorium requests. So far, only 1.1-1.2% of our retail and SME customers have proactively reached out to us for moratorium requests. This is also one of the probable reasons why we are seeing elevated levels of bounce in retail and SME.

The company will continue to bank all customers who have not requested for moratorium. Historically, 27-30% of the bounced customers pay digitally. Rest walk into the branches or are collected by field agents. Given the lock down, naturally field and branch collections activity is halted and will resume once the lock down is over.

Customers who are unable to pay by end of the month are offered moratorium for that month on a suo-moto basis till 31st May. While customers may be offered moratorium benefits, the company intends to make provisions as per historical flow rates. In addition, the company will consider making additional provisions basis emerging data.

Three likely business scenarios

First scenario is that lockdown opens on 14th of April. In this scenario, we foresee business in April to be 20% of our planned volumes, May at 60% and gradually return to 100% of our planned volumes by September. The impact of demand is likely to be transient. Loan loss to average receivables could go up by 40-50% over 9M FY20 run rate of 2.0%. The bounce rates and collection efficiencies should return to normal levels by August. We may gain some of the lost volume in second half of the year albeit marginally.

Second scenario is that lockdown opens on 30th of April. It could have a reasonable impact on customer psyche. In this scenario, we foresee business in April to be nil, May to run at 30% of our planned volumes, June at 70% and return to 100% of our planned volumes by October. The impact on demand, however, is likely to be material. Loan loss to average receivables could go up by 50-60% over 9M FY20 run rate of 2.0%. The bounce rates and collection efficiencies may return to normal levels by September/October. We are not likely to gain any of the lockdown lost sales volume.

Third scenario is that lockdown goes all the way to 49 days and opens on 15th May. In this scenario, we foresee business in April will be zero, May will be at 20% of our planned volumes, June at 50% and return to 100% of our planned volumes by Q4 only. The company will be forced to take a harder view on opex and explore a 12-15% cut vs current opex cuts of 7-8%. Loan loss to average receivables could go up by 80-90% over 9M FY20 run rate of 2.0%. The bounce rates and collection efficiencies may return to normal levels only by Q4.

As I mentioned in the beginning these are highly uncertain times and we are all forced to make difficult choices and decisions on an everyday basis with very limited information and without any empirical evidence. At BFL, we are doing the same on an everyday basis. The strength of the business model, agile decision making, our strong execution rigour and long-term orientation is likely to be the differentiating factor. We have patient shareholders and an exceptional management team with all hands-on deck to tide through the biggest crisis that we all have ever experienced.

Thank you for the patient hearing. The transcript will be filed with stock exchanges and will also be available in the investor section of our website.

----------------------------------End of commentary----------------------------------