Bajaj Finance Limited

January 17,2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	5,000.00	CARE AAA; Stable	Reaffirmed
Issuer Rating	0.00	CARE AAA; Stable	Reaffirmed
Subordinate Debt	3,455.00	CARE AAA; Stable	Reaffirmed
Non-Convertible Debentures	272.00	CARE AAA; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The issuer rating as well as other ratings assigned to the long-term debt instruments and bank facilities of Bajaj Finance Limited (BFL) continue to factor in its track record and market position as one of the largest retail-focused non-banking finance companies (NBFCs) in the country with an established pan-India franchise with a large customer base.

Over the years, BFL has scaled up its lending portfolio while maintaining healthy capitalisation through demonstrated ability to raise capital as well as stable internal accruals. The ratings further factor in BFL's diversified resource profile, diversified asset profile which provides the company to calibrate products to focus on growth and yield, improvement in asset quality parameters post the COVID-19 pandemic and stable profitability metrics.

The ratings draw comfort from BFL's strong parentage, brand identity and strategic importance to the Bajaj group, being the flagship lending company of the group.

The ratings consider BFL's exposure to relatively riskier segments, such as personal loans, unsecured business loans, two and three-wheeler financing, consumer durable financing, etc, and the growing proportion of its relatively under-seasoned mortgage segment in the overall assets under management (AUM). Moreover, the presence of established risk management systems mitigates the risk of such exposure to some extent, which has enabled the company to maintain good asset quality over the years. BFL also continues to face increasing competition in some of the product segments, such as housing or mortgage loans and personal loans from large-sized private as well as public sector banks and from small finance banks (SFBs) and smaller NBFCs in the rural geographies.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors- Factors that could lead to positive rating action/upgrade:

- Not applicable

Negative factors - Factors that could lead to negative rating action/downgrade:

- Dilution in the strategic importance for the group
- Deterioration in the asset quality with consolidated net non-performing assets (NNPA) to net worth ratio above 15% on a sustained basis
- Decline in profitability, with the return on total assets (ROTA) declining below 1.5% on a sustained basis
- Substantial increase in the leverage over 7x

Analytical approach: CARE Ratings Limited (CARE Ratings) has analysed BFL's credit profile by considering its consolidated financial statements owing to the financial and operational linkages with its housing finance subsidiary, Bajaj Housing Finance Limited (BHFL) (100% subsidiary) and Bajaj Financial Securities Limited (BFSL) (100% subsidiary). CARE Ratings has also considered BFL's parentage and its strategic importance to the Bajaj group.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Outlook: Stable

The stable outlook takes into consideration BFL's track record and market position as one of the largest retail-focused NBFCs in the country as well as established pan-India franchise with a large customer base. The outlook also considers BFL's healthy capitalisation, diversified resource profile, continued improvement in asset quality, stable profitability metrics and the benefits derived from the parentage.

Detailed description of the key rating drivers:

Key strengths

Established track record as one of the largest retail focused and diversified NBFCs with an established pan-India franchise with a large customer base

BFL is one of the leading NBFCs in India having AUM of ₹290,264 crore (on consolidated basis) as on September 30,2023 witnessing a growth of 33% on a y-o-y basis and 7% on a q-o-q basis. As on December 31, 2023, the AUM stood at ₹311,000 crore (on provisional basis as per stock exchange disclosure) witnessing a growth of 35% on y-o-y basis and 7% on q-o-q basis.

It has a diverse product offerings classified into various segments, such as consumer finance (constituting 34% of the AUM), SME finance (13% of the AUM); commercial finance, including loan against shares – (13% of the AUM), rural finance (9% of the AUM) and mortgage finance (31% of the AUM) which includes loan against property (LAP), home loans to self-employed and salaried individuals, and developer loans, which is largely done under its 100% subsidiary, BHFL.

The mortgage business has witnessed significant growth since BHFL started its operations in FY18 (refers to the period April 1 to March 31). However, its proportion in the overall AUM has not altered significantly (March 2023: 31%, March 2022: 31%). Over 80% of the AUM of BFL is retail, which brings stability to the AUM and reduces borrower concentration.

Over the years, the company has developed a strong franchise and geographical reach with presence in 3,934 locations and over 181,100 active distribution points of sale with a customer base of 76.56 million customers as on September 30, 2023 (September 30, 2022: Location – 3,685, distribution points over 143,300 and 62.91 million customers). During FY23, the company has expanded its geographic presence across 229 locations primarily across Uttar Pradesh, Bihar, and north-east India. BFL continues to expand its customer base and geographical presence throughout the country, thus reducing the geographic concentration as well increasing its ability to cross sell. As a part of its omnipresence strategy, BFL is also investing in technology to increase its digital footprint by adding features to its web and app platform. In addition, it has tie-ups to distribute life insurance, general insurance, health insurance and co-branded credit cards from which it earns fee income.

CARE Ratings takes note of the Reserve Bank of India's (RBI) order in the month of November 2023, to BFL to stop sanction and disbursal of loans under its two lending products namely, 'eCOM' and 'Insta Existing Member identification (EMI) Card', with immediate effect, particularly with respect to non-issuance of Key Fact Statements (KFS) to the borrowers under these two lending products and the deficiencies in the KFS issued in respect of other digital loans sanctioned by the company. Subsequently, BFL announced its temporary suspension of the issuance of these EMI cards to its new customers.

As per the stock exchange filing by BFL, the company expects no material financial impact, and the company is in the process of taking corrective actions to rectify the deficiencies observed by RBI at the earliest. CARE Ratings does not expect material impact due to the regulatory action and would continue to monitor the timelines for resolving these issues.

Strong capitalisation levels

The company has maintained comfortable capitalisation levels over the years, while it has significantly scaled up its business. BFL has raised equity capital by way of qualified institutional placement (QIP) thrice in the past 10 years, the latest QIP in November 2023 for ₹8,800 crore demonstrating strong capital raising ability.

BFL reported a capital adequacy ratio (CAR) of 24.97% (Tier-I CAR: 23.20%) as on March 31, 2023 (March 31, 2022: CAR – 27.22% and Tier-I CAR – 24.75%). As on September 30, 2023, the CAR stood at 23.19% and Tier-I CAR stood at 21.88% which is over and above the regulatory requirement providing adequate cushion for future growth. As per the internal policy, BFL keeps itself adequately capitalised to maintain a leverage threshold of 7.0x. However, the overall gearing stood at 4.11x as on March 31, 2023 (March 31, 2022: 3.91x). During November 2023, the company raised equity of ₹8,800 crore through QIP and ₹1,188 crore through preferential issue of share warrants of which ₹297 crore has been received (25% of the consideration) and the remaining 75% is expected to be converted within 18 months. Post considering the said capital infusion, the gearing of the company stood reduced at 3.80x on consolidated basis. (based on September 2023 financials).

CARE Ratings takes note of the recent RBI measure towards increase in the risk weights on the loan exposures of the NBFCs from 100% to 125% on the unsecured consumer loans (not including home loans, housing loans, vehicle loans, educational loans,

loans against gold and microfinance/SHG loans), which would in turn decrease the CAR of the company. As BFL is engaged in extending unsecured consumer loans, CARE Ratings expects around 270 bps to 280 basis points impact on the CAR. However, supported by the recent capital infusion, the company would be able to absorb the entire impact on the capital adequacy.

Diversified resource profile and resource raising ability
Over the years, BFL has developed relationships with most of the large banks for borrowings and continues to actively raise funds from the capital market and deposits at competitive rates, thus keeping its cost of funds low. BFL has a treasury department, which manages its funding profile (both duration and sources) depending on the interest rate scenario to optimise the cost of borrowings. In addition, BFL being a deposit accepting NBFC has the option to raise funds through deposits.

As on September 30, 2023, on a consolidated basis, borrowing mix was well diversified, with non-convertible debenture (NCD) and subordinate debt constituting 34% of the total borrowings, borrowing from banks constituting 33% of total borrowings, deposts-21%, short-term borrowings constituting of 12% and external commercial borrowings (ECB)-1%. Out of the total deposits, around 63% consists of retail deposits as on March 31, 2023.

CARE Ratings takes note of the RBI's direction towards increase in the risk weights on banks' exposure to NBFCs by 25% (over and above the risk weight associated with the given external rating), which in turn would lead to higher cost of bank borrowings for the NBFC. However, the extent of the impact on the liability profile would be determined by the share of bank borrowings in the overall resource profile. For BFL (standalone), bank borrowings formed 23% of the total resource profile as on September 30, 2023. As the reliance of the bank borrowings on the overall liabilities profile is low, the direct impact on the overall cost of funds is expected to be minimal. Moreover, the company continues to strive towards diversification of the resources with focus on deposit franchise and ECB.

Healthy earning profile
On a consolidated basis, BFL has demonstrated a strong earning profile consistently over the years, with the net interest margin (NIM) ranging over 9%, helped by yields-on-portfolio between 16 and 17.5% and cost of funds between 7.5% and 9%. BFL reported a profit-after-tax (PAT) of ₹11,506 crore on a total income of ₹41,406 crore for FY23 as compared with PAT of ₹7,036 crore on a total income of ₹31,646 crore for FY22. During FY23, the NIM improved to 9.49% (FY22: 9.19%) on account of higher yield on the AUM with a relatively lower rise in the cost of funds coupled with a significant growth in the AUM during the year.

The operating expense as a percentage of the total assets rose to 4.18% during FY23 (FY22: 3.98%), mainly as the company continued to invest in geographical expansion along with the addition of employees. The credit costs improved on account of the improvement in asset quality and improved collections during the year, observing a revival from the stress witnessed during the COVID-19 period. The credit costs stood at 1.32% during FY23 (FY22: 2.52%). On account of the above, the ROTA stood at 4.75% (FY22: 3.69%). BFL's return on net worth (RONW) improved to 24.21% during FY23 (FY22: 18.05%).

During H1FY24 (H1 refers to the period between April 01 to September 30), BFL reported a PAT of ₹6,985 crore (consolidated) as compared with PAT of ₹5,377 crore during H1FY23. CARE Ratings expects BFL's profitability to be healthy over the medium term.

Strong parentage and strategic importance to the parent group
BFL enjoys parentage of a strong promoter (Bajaj) group, wherein Bajaj Finserv Limited, the flagship holding company of the group for financial services businesses, holds around 52.45% stake in BFL; and Bajaj Holdings Investment Limited (BHIL) being the ultimate parent company holds around 39.06% stake in Bajaj Finserv Limited as on September 30,2023. BFL is the largest consumer lending arm of the group and financier of total domestic sales of two wheelers (around 40%) and three wheelers (around 44%) of Bajaj Auto Limited (BAL) as on March 31, 2023. BFL has strategic importance to the group, sharing the brand identity of the 'Bajaj' group. Sanjiv Bajaj, who is the Chairman of the company, heads the Board of Directors of BFL. The promoter directors are common across the group, including BFL.

Key weaknesses

Presence in unsecured and relatively riskier segments with risk partially mitigated by established risk management system
Majority of BFL's retail loans constitutes consumer durable finance, personal loans, and unsecured business loans (small and medium enterprise [SME]), which are mainly unsecured or risky asset segments and constitutes approximately 56% of the AUM as on September 30, 2023 (March 31, 2023: 56%). Furthermore, the mortgage loan book, which constitutes approximately 31% of the AUM, is largely under-seasoned. BFL has seen significant improvement in the asset quality post the stress witnessed during

the COVID-19 period, mainly on account of improved economic environment, better collections, along with write-offs over the years. As on March 31, 2023, the Gross Stage 3 (GS3) and Net Stage 3 (NS3) assets stood at 0.94% and 0.34%, respectively, as compared with GS3 and NS3 of 1.60% and 0.68%, respectively, as on March 31, 2022.
The company had written off ₹3,379 crore of loans in FY23 (PY: ₹4,807 crore). Further improvement was witnessed during H1FY24, with GS3 at 0.91% and NS3 at 0.31% as on September 30,2023. The provision coverage ratio (PCR) and NS3 to net worth stood at 62% and 1.55%, respectively, as on September 30, 2023. BFL continues to keep high provisions (including management overlay) for its stressed assets. It maintained a management overlay provision of ₹740 crore in addition to a non-performing assets (NPA) provision as on September 30, 2023, to insulate itself from any further asset quality deteriorations. The company released ₹100 crore from the overlay in Q2FY24.

BFL has a high focus on the risk management infrastructure to manage delinquency levels and to target the right customer for its various products. It has a designated risk and analytics department, which has built statistical models to capture the various parameters of the customers and the delinquency levels in each of the product segments. These statistical models capture the consumer metric and use predictive analytics to establish the possibility of a default, and the models are reviewed monthly by the top management and updated regularly to capture emerging trends in the customer behaviour and delinquency levels. Historically, BFL has showcased its ability by maintaining healthy collections and asset quality despite a robust growth in the AUM.

Liquidity: Strong
BFL and BHFL have a comfortable liquidity profile with positive cumulative mismatches in all the time buckets up to one year due to well-matched tenure of assets and liabilities as per behavioural standalone asset liability maturity (ALM) statement as on September 30,2023. The company maintained a consolidated liquidity buffer of ₹11,373 crore as on September 30,2023.

BFL and BHFL maintained liquidity coverage ratio (LCR) of 306% and 107%, respectively, as against the regulatory requirement of 70% for BFL and 60% for BHFL for Q2FY24. On a standalone basis for BFL, comfort can also be drawn from undrawn credit lines of around ₹12,561 crore as on September 30,2023.

Environment, social, and governance risks
BFL has a board-level cross-functional environment, social and governance (ESG) committee, headed by an Executive Director, for implementing and monitoring the ESG-related initiatives and reporting thereof. The company has taken various steps to reduce the carbon footprints. It has taken various initiatives to reduce the usage of single-use plastics across BFL. The company, through its lending activities, which is mainly focussed on the retail segment, has been enabling financing to new credit customers along with increasing its reach in semi-urban and rural areas, thus leading to financial inclusion. BFL has opened financial inclusion branches in rural areas, with 50 branches during FY23.
Majority of the board members are independent executives with excellent track record and reputation. The number of board and committee meetings are more than the statutory requirement. Effective April 01, 2023, the audit committee comprises independent board members, demonstrating high standards of corporate governance.

Applicable criteria
Policy on default recognition
Consolidation
Financial Ratios - Financial Sector
Issuer Rating
Rating Outlook and Credit Watch
Non-Banking Financial Companies

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non Banking Financial Company (NBFC)

BFL is a systemically important deposit taking NBFC of the Bajaj group and is a subsidiary of Bajaj Finserv Limited, which is the holding company of the Bajaj group for its financial services business. Bajaj Finserv Limited held 52.45% stake in BFL as on September 30,2023.

BFL is one of the leading NBFCs in India, having a diversified loan book with exposure in various segments such as consumer finance (34% of the AUM), which includes consumer durable loans, lifestyle product finance, digital finance, personal loans cross sell, two and three-wheeler loans, salaried and home-salaried loans, and others; SME finance (13% of the AUM), which includes business loans, professional loans, and others; commercial finance (13% of the AUM), which includes loan-against-securities (LAS), infrastructure finance, vendor finance, financial institution lending, corporate finance loans, lite engineering, and others; rural finance (9% of the AUM), which includes all the products offered in rural areas mentioned above; and mortgage finance (31% of the AUM; largely done through its 100% subsidiary – BHFL), which includes home loans – self-employed and salaried, LAP, and developer loans as on September 30,2023.

BFL has two wholly-owned subsidiaries, viz., BHFL and BFSL. BHFL is registered with the National Housing Bank (NHB) as a housing finance company (HFC), regulated by the RBI and classified as an 'Upper Layer NBFC' under the recent Scale Based Regulations issued by the RBI and became fully operational from January 2018. The HFC reported AUM of ₹81,215 crore as on September 30,2023, comprising salaried home loans, LAP, developer financing, lease rental discounting (LRD), etc. BFSL is registered with the Securities and Exchange Board of India (SEBI) as a stockbroker and depository participant. BFSL started its business operations in August 2019 with a strategy to ring fence LAS customers of BFL by providing them a full suite of investment products and services. It offers demat, broking, mutual funds (MFs), initial public offerings (IPOs), distribution of PMS, margin trade financing and financing for offer for sale to retail and high-net-worth (HNI) clients. It offers spread financing to its customers through BFL.

BFL Consolidated

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (Reviewed)
Total operating income	31,632	41,406	25,882
PAT	7,036	11,506	6,985
Total Assets	211,100	273,595	320,078
Net NPA (%)	0.68	0.43	0.31
ROTA (%)	3.69	4.75	4.71^

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available' ^annualised

Note: For all ratio calculations, total assets are net of intangibles and deferred tax asset.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-convertible debentures	INE296A07LG7	04-Jul-16	8.65%	03-Jul-26	47.5	CARE AAA; Stable
Non-convertible debentures	INE296A07MO9	23-Sep-16	8.05%	23-Sep-26	10.0	CARE AAA; Stable
Non-convertible debentures (Proposed)	-	-	-	-	214.5	CARE AAA; Stable
Subordinate debt	INE296A08771	15-Jul-16	8.85%	15-Jul-26	490.0	CARE AAA; Stable
Subordinate debt	INE296A08789	21-Jul-16	8.85%	21-Jul-26	480.0	CARE AAA; Stable
Subordinate debt	INE296A08797	16-Aug-16	8.75%	14-Aug-26	485.0	CARE AAA; Stable
Subordinate debt	INE296A08805	29-Sep-16	8.45%	29-Sep-26	500.0	CARE AAA; Stable
Subordinate debt	INE296A08821	02-Dec-16	8.05%	02-Dec-26	105.0	CARE AAA; Stable
Subordinate debt	INE296A08847	22-Jun-17	8.15%	22-Jun-27	600.0	CARE AAA; Stable
Subordinate debt (Proposed)	-	-	-	-	795.0	CARE AAA; Stable
Issuer Ratings	-	-	-	-	-	CARE AAA; Stable
Long Term Bank Facilities	-	-	-	Sept-27	5000.0	CARE AAA; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type*	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AAA; Stable	1)CARE AAA; Stable (14-Sep-23)	1)CARE AAA; Stable (05-Jan-23) 2)CARE AAA; Stable (26-Dec-22)	1)CARE AAA (Is); Stable (06-Jan-22)	1)CARE AAA (Is); Stable (26-Mar-21) 2)CARE AAA (Is); Stable (01-Apr-20)
2	Debentures-Non Convertible Debentures	LT	272.00	CARE AAA; Stable	1)CARE AAA; Stable (14-Sep-23)	1)CARE AAA; Stable (05-Jan-23)	1)CARE AAA; Stable (06-Jan-22)	1)CARE AAA; Stable (26-Mar-21) 2)CARE AAA; Stable (01-Apr-20)

3	Debt-Subordinate Debt	LT	3455.00	CARE AAA; Stable	1)CARE AAA; Stable (14-Sep-23)	1)CARE AAA; Stable (05-Jan-23)	1)CARE AAA; Stable (06-Jan-22)	1)CARE AAA; Stable (26-Mar-21) 2)CARE AAA; Stable (01-Apr-20)
4	Fund-based - LT-Term Loan	LT	5000.00	CARE AAA; Stable	1)CARE AAA; Stable (14-Sep-23)	-	-	-

*LT-Long term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities- Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple
2	Debt-Subordinate Debt	Complex
3	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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