

July 15, 2021

## Bajaj Finance Ltd.: Ratings reaffirmed; [ICRA]A1+ assigned to enhanced CP programme and [ICRA]AAA (Stable) withdrawn on Rs. 50-crore subordinated debt programme

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	103.00	103.00	[ICRA]AAA (Stable); reaffirmed
Subordinated Debt	50.00	0.00	[ICRA]AAA (Stable); reaffirmed and simultaneously withdrawn
Subordinated Debt	999.60	999.60	[ICRA]AAA (Stable); reaffirmed
Commercial Paper	25,000.00	25,000.00	[ICRA]A1+; reaffirmed
Commercial Paper	0.00	10,000.00	[ICRA]A1+; assigned
Fixed Deposit	NA	NA	MAAA (Stable); reaffirmed
<b>Total</b>	<b>26,152.60</b>	<b>36,102.60</b>	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA has assigned a short-term rating of [ICRA]A1+ to the enhanced commercial paper (CP) programme of Rs. 35,000 crore (enhanced from Rs. 10,000 crore) of Bajaj Finance Ltd. (BFL). ICRA has also withdrawn the rating assigned to the Rs. 50-crore subordinated debt programme of BFL as no amount is outstanding against the rated instrument. The rating was withdrawn at the request of the company and as per ICRA's policy on the withdrawal and suspension of credit ratings.

The ratings factor in BFL's long track record of operations and established presence in the Indian financial market as one of the largest retail-focused non-bank financiers. Over the last decade, the company has achieved a significant scale with consolidated assets under management (AUM) of Rs. 1,52,947 crore as on March 31, 2021 (approximately Rs. 1,59,000 crore as on June 30, 2021), distributed across different geographies and asset classes, lending granularity to its portfolio with the book being predominantly retail. The ratings also factor in BFL's healthy earnings profile (3-year average return on average managed assets of 3.2%<sup>1</sup>) on account of consistent accretion and prudent operating expense management with the use of automation. BFL has built robust data analytics capabilities facilitating early warning signals, thereby enabling the effective and continuous monitoring of the portfolio.

ICRA draws comfort from BFL's healthy capitalisation profile with a CRAR of 28%. Further, the company has continued to maintain a comfortable liquidity profile with well-matched asset-liability maturities supported by high on-balance sheet liquidity and unutilised lines. ICRA also notes that BFL maintains a low share of funding from short-term sources. BFL is of significant strategic importance to the Bajaj Group, given its position as the lending vertical of Bajaj Finserv Limited and the captive financier for the Group's flagship company, Bajaj Auto Limited. ICRA expects the company to continue to benefit from the financial flexibility derived from such association and relevance.

However, ICRA takes note of the moderate to high risk profile of the portfolio as unsecured consumer finance, personal loan finance and small and medium enterprises (SME) finance accounted for ~51% of the overall portfolio as on March 31, 2021. Moreover, the credit cost surged in FY2020 and FY2021 partly on account of charge-offs, provisioning on certain exposures and the additional Covid-19 provisioning as well as the weakened financial profile of the borrowers impacted by the Covid-19-

<sup>1</sup> FY2019 to FY2021

induced macroeconomic slowdown. Going forward, the company's ability to manage the Covid-19-induced stress on its asset quality remains critical from a rating perspective. BFL's prudent risk management on account of tightened underwriting and its focus on existing customers mitigate the risk on the asset quality to some extent. Further, its ability to sustain a diversified funding mix and maintain a competitive cost of funds while accelerating its growth over the medium term remains a monitorable.

The Stable outlook on the long-term-and-medium-term ratings reflects ICRA's opinion that BFL will continue to benefit from its long track record of operations, established branding, scale and granularity of its portfolio, and its commitment to robust risk management and prudent financial policies.

## Key rating drivers and their description

### Credit strengths

**Strong market position and significant track record in Indian retail finance operations with strategic importance to Bajaj Group** – BFL has a strong market presence in the Indian non-bank retail financing sector. The company achieved a fast-paced growth over the last decade to build a sizeable portfolio of Rs. 1,52,947 crore as on March 31, 2021 (vs. Rs. 4,585 crore as on March 31, 2010) on a consolidated basis. It holds high strategic importance to the Bajaj Group of companies by virtue of being its principal lending business unit and captive financier for the flagship entity, Bajaj Auto Limited. ICRA expects BFL to continue enjoying financial flexibility, given its association and importance to the Bajaj Group. The company's stable and experienced senior management team has guided it through evolving technological disruptions and macroeconomic challenges. ICRA expects BFL to continue to leverage the senior management's expertise going forward as well.

**High share of retail portfolio and geographical and product diversification lend stability to business in a competitive environment** – As on March 31, 2021, the company had a presence in 2,988 locations across the country and a 1.1 lakh+ point of sale distribution network catering to a total customer franchise of 4.9 crore borrowers. Further, ~80-85% of the overall portfolio as on March 31, 2021 was towards retail borrowers, which lends stability in terms of lower borrower-level portfolio concentration. BFL has a reasonable presence across asset classes like mortgage, consumer durables, personal finance, commercial finance, SME finance and rural finance with numerous product offerings in each segment. In addition to other non-bank financiers, BFL's competitive landscape in most high-volume segments such as home loans and personal loans includes established private-and-public-sector banks. ICRA expects that BFL will remain diversified with a focus on its retail portfolio and granularity going forward as well.

**Healthy earnings profile supported by good margins and prudent expense management; however, short-to-medium-term profitability likely to be under pressure due to elevated credit costs** – With high portfolio growth over the last decade, the company managed to draw upon the benefits of economies of scale while maintaining good lending margins and controlling the credit costs. Consequently, BFL generated healthy internal accruals that support the return indicators and facilitate growth as well. At the consolidated level, the net interest margin (including processing fees and as a percentage of the gross average managed assets) declined to 8.5% in FY2021 from 9.5% in FY2020 due to the negative carry of on-book liquidity being maintained by the company and the AUM growth picking up pace only in H2 FY2021.

The company managed to prune its operating expenses though net profitability was compressed by the elevated credit costs of 3.3% in FY2021 (2.5% in FY2020; on account of the additional provisioning for the Covid-19 impact as well as accelerated write-offs). Despite the elevated credit costs, BFL delivered a return on average managed assets<sup>2</sup> of 2.5% in FY2021 (3.5% in FY2020) and a return on average net worth of 12.8% in FY2021 (20.24% in FY2020), in line with ICRA's expectations. While pressure is expected to persist in the near to medium term, the company's long-term growth potential and profitability are expected to remain unaltered.

<sup>2</sup> Average managed assets based on gross loans and advances

**Healthy capitalisation profile driven by good internal capital generation and ability to raise capital in a timely manner** – BFL was well-capitalised as on March 31, 2021 with a consolidated net worth of Rs. 36,918 crore (Rs. 32,328 crore as on March 31, 2020), a consolidated gearing of 3.6 times and capital adequacy of 28% (gearing of 4.0 times and CRAR of 25% as on March 31, 2020). In the backdrop of the macroeconomic challenges and the Covid-19-induced stress, ICRA expects a slowdown in BFL's portfolio growth rate in FY2022. This will lead to low incremental capital requirement for the next two-three years, assuming the credit costs do not significantly exceed the current estimates. ICRA takes comfort from BFL's demonstrated track record of raising capital in a timely manner in order to consistently maintain a prudent gearing level.

**Comfortable liquidity position with well-matched assets and liabilities and diversified funding profile** – The weighted average tenor of the equity-adjusted liabilities exceeds that of the assets by 10-15 months on average, resulting in a well-matched asset-liability maturity profile across buckets. The company's consolidated liquidity profile is further supported by high on-balance sheet liquidity (Rs. 10,844 crore as on June 30, 2021). BFL also maintained adequate off-balance sheet liquidity in the form of sanctioned but unutilised lines (Rs. 4,298 crore as on June 30, 2021), further cushioning the overall liquidity profile.

Moreover, BFL has a diverse funding base with banks accounting for 32% of the overall consolidated borrowings, non-convertible debentures (NCDs) and subordinated debt for 41%, deposits for 20%, and other sources like external commercial borrowings, commercial paper (CP), collateralised borrowing and lending obligation (CBLO) and securitisation for the balance (7%) as on March 31, 2021. ICRA also notes that the company maintains a low share of funding from short-term sources. While BFL has sufficient headroom in terms of leveraging and tapping the deposit base as an incremental source, ICRA expects that with further improvement in its scale over the medium to long term, it may need to explore other avenues of funding such as retail issuances in the capital market and direct assignment/securitisation.

## Credit challenges

**Increased portfolio vulnerability towards adverse macroeconomic developments, given higher share of relatively semi-secured/unsecured assets** – With an improvement in Bajaj Housing Finance Limited's (BHFL) scale, the share of the mortgage book increased to ~33% as on March 31, 2021 on a consolidated basis (though the mortgage book remains relatively under-seasoned as a large share of the disbursements was undertaken by BHFL in the last two fiscals) from ~26% as on March 31, 2019. However, the share of the relatively riskier (unsecured and difficult-to-repossess semi-secured) consumer durable finance, vehicle finance, and personal loan segments and the SME finance book remained high at ~51% (~66% on a standalone basis) of the overall portfolio as on March 31, 2021.

The weakened financial profile of the borrowers and increased susceptibility to further income shocks due to adverse macroeconomic developments have increased the portfolio vulnerability, resulting in greater asset quality risk for the company. However, BFL's use of data analytics and its continuous portfolio monitoring, based on microsegment-level system-generated early warning signals, facilitate agility in terms of the pertinent credit policy adjustments required. ICRA expects BFL's portfolio review the mechanism to mitigate asset quality deterioration to some extent.

**Ability to manage adverse impact of Covid-19-induced stress on asset quality** – BFL is well-placed to absorb the estimated credit costs guided by the management thus far. Nonetheless, its ability to manage the adverse impact of the Covid-19-induced disruptions on the asset quality, not only over the next 12-18 months but also over the medium term, will remain a key monitorable. Given the mass affluent borrower profile that BFL caters to at large, ICRA expects the possibility of a continued second-order impact on account of the macroeconomic slowdown as well as the subsequent waves of Covid-19 and operational disruptions thereof.

## Liquidity position: Superior

As per BFL's standalone liquidity statement as on March 31, 2021, there were no negative cumulative mismatches up to five years. The liquidity remained well supported by high on-balance sheet and off-balance sheet buffers. As on March 31, 2021, the overlaying of BHFL's liquidity statement over the standalone liquidity statement of BFL also yielded a comfortable profile

with no negative cumulative mismatches up to three years. The reported consolidated on-balance sheet liquidity, as on June 30, 2021, was Rs. 10,844 crore.

## Rating sensitivities

**Positive factors** – Not applicable

**Negative factors** – Pressure on the ratings could arise if the consolidated return on assets remains at sub-2% levels on a sustained basis (assuming no significant change vis-à-vis the current consolidated portfolio mix) and if the consolidated gearing level remains above 7 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Rating Methodology for Non-Banking Finance Companies</a> <a href="#">ICRA Policy on Withdrawal and Suspension of Credit Ratings</a>
Parent/Group Support	Parent/Group Company: Bajaj Finserv Limited (ultimate parent – Bajaj Holdings & Investment Limited) No explicit support from the Group has been assumed; ICRA expects continued financial flexibility for BFL based on its association with the Bajaj Group
Consolidation/Standalone	The ratings are based on the consolidated financial statements of the rated entity

## About the company

Bajaj Finance Limited (BFL) is a systemically important, deposit taking non-banking finance company (NBFC-D-SI) with a diversified loan portfolio and a pan-India presence. While the company was originally set up to provide finance for the purchase of two-wheelers and three-wheelers manufactured by Bajaj Auto, it diversified into other segments over the years. Currently, it operates across seven broad categories – Consumer Lending, Mortgages, Commercial Lending, Rural Lending, SME Lending, Deposits, and Partnerships & Services. Under Partnerships & Services, the company offers products like health insurance, extended warranty, comprehensive asset care, co-branded credit cards and wallets. BFL offers a co-branded credit card with RBL Bank and has also partnered with One Mobikwik Systems Pvt Ltd to provide both debit and credit engagement tools to its existing customers. BFL has two wholly-owned subsidiaries viz, BHFL and Bajaj Financial Securities Limited (BFSL). BHFL is registered with National Housing Bank as a housing finance company (HFC) while BFSL was incorporated to undertake the business of share broking and to act as a depository participant.

On a consolidated basis, BFL reported a profit after tax of Rs. 4,420 crore in FY2021 with an AUM of Rs. 1,52,947 crore as on March 31, 2021 vis-à-vis a profit after tax of Rs. 5,264 crore in FY2020 with an AUM of Rs. 1,47,153 crore as on March 31, 2020.

### Bajaj Finserv Limited

Bajaj Finserv Limited, a core investment company (CIC) under Reserve Bank of India (RBI) regulations, is the holding company for the Bajaj Group's financial services businesses. It has investments in BFL and the insurance joint venture companies, Bajaj Allianz Life Insurance Company Limited and Bajaj Allianz General Insurance Company Limited. Bajaj Finserv held a 52.74% stake in BFL as on March 31, 2021. It also has a wholly-owned subsidiary, Bajaj Finserv Direct Limited (formerly Bajaj Financial Holdings Limited), which has a mandate to undertake activities on digital and online platforms to augment the business of Bajaj Finserv's subsidiaries. Bajaj Finserv also has 100% shareholding in Bajaj Finserv Health Limited and 50% shareholding in Bajaj Allianz Financial Distributors Limited.

### Bajaj Holdings & Investment Limited

Erstwhile Bajaj Auto Limited was demerged into three entities – Bajaj Auto Limited, Bajaj Finserv and the erstwhile Bajaj Auto Limited (renamed Bajaj Holdings & Investment Limited; BHIL) with effect from April 1, 2007. As a holding and investment company, BHIL held strategic stakes of 33.43%, 39.16% and 51%, respectively, in Bajaj Auto Limited, Bajaj Finserv, and Maharashtra Scooters Limited as on March 31, 2021. BHIL is registered with the RBI as an NBFC – investment and credit company (NBFC-ICC).

### Key financial indicators (audited)

Bajaj Finance Limited	FY2018	FY2019	FY2020	FY2021
Net Interest Income	6,973	9,725	13,498	13,894
Profit after Tax	2,496	3,995	5,264	4,420
Net Worth	15,848	19,697	32,328	36,918
Managed Advances (net of provisions)	82,422	1,15,888	1,47,153	1,52,947
Total Managed Assets (grossed up for provisions)	89,648	1,29,665	1,73,893	1,82,095
Return on Assets (%)	3.19%	3.64%	3.47%	2.48%
Return on Net Worth (%)	20.07%	22.48%	20.24%	12.77%
Gross Gearing (times)	4.26	5.23	4.02	3.57
Gross NPA/Gross Advances	1.44%	1.57%	1.61%	1.79%
Net NPA/Net Advances	0.44%	0.65%	0.65%	0.75%
Capital to Risk Weighted Assets Ratio (CRAR)*	23.98%	20.66%	25.01%	28.31%

**Source:** Company, ICRA research; As per consolidated financials; Amounts in Rs. crore; All ratios as per ICRA calculations

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of June 30, 2021 (Rs. crore)	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019			
					Jul 15, 2021	Apr 22, 2021	Oct 01, 2020	Aug 22, 2019	Nov 13, 2018	Jul 27, 2018	May 11, 2018	
1	Non-convertible Debenture	Long Term	103.00	103.00	[ICRA]AA A (Stable)	[ICRA]AA A (Stable)	[ICRA]AA A (Stable)	[ICRA]AA A (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
2	Subordinated Debt	Long Term	999.60	999.60	[ICRA]AA A (Stable)	[ICRA]AA A (Stable)	[ICRA]AA A (Stable)	[ICRA]AA A (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
3	Subordinated Debt	Long Term	50.00	0.00	[ICRA]AA A (Stable); reaffirmed and withdrawn	[ICRA]AA A (Stable)	[ICRA]AA A (Stable)	[ICRA]AA A (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
4	Fixed Deposit	Medium Term	-	-	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	
5	Commercial Paper	Short Term	25,000.00	0.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
6	Commercial Paper	Short Term	10,000.00	0.00	[ICRA]A1+	-	-	-	-	-	-	

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-convertible debentures	Simple
Subordinated debt	Simple
Commercial paper	Very Simple
Fixed deposit	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [www.icra.in](http://www.icra.in)

**Annexure-1: Instrument details**

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE296A07IB4	Non-convertible Debenture	Oct-13-15	8.65%	Oct-13-22	8.00	[ICRA]AAA (Stable)
INE296A07HW2	Non-convertible Debenture	Aug-20-15	8.90%	Aug-20-25	90.00	[ICRA]AAA (Stable)
INE296A07IA6	Non-convertible Debenture	Oct-13-15	8.70%	Oct-13-25	5.00	[ICRA]AAA (Stable)
INE296A08490	Subordinated Debt	May-18-11	9.83%	May-18-21	50.00	[ICRA]AAA (Stable); reaffirmed and simultaneously withdrawn
INE296A08656	Subordinated Debt	Jun-14-12	10.21%	Aug-22-22	10.00	[ICRA]AAA (Stable)
INE296A08656	Subordinated Debt	Jun-15-12	10.21%	Aug-22-22	15.40	[ICRA]AAA (Stable)
INE296A08656	Subordinated Debt	Jun-20-12	10.21%	Aug-22-22	3.00	[ICRA]AAA (Stable)
INE296A08656	Subordinated Debt	Jun-28-12	10.21%	Aug-22-22	2.60	[ICRA]AAA (Stable)
INE296A08656	Subordinated Debt	Jul-25-12	10.21%	Aug-22-22	4.40	[ICRA]AAA (Stable)
INE296A08656	Subordinated Debt	Aug-02-12	10.21%	Aug-22-22	4.00	[ICRA]AAA (Stable)
INE296A08656	Subordinated Debt	Aug-17-12	10.21%	Aug-22-22	118.00	[ICRA]AAA (Stable)
INE296A08672	Subordinated Debt	Jan-28-13	9.80%	Jan-28-23	49.70	[ICRA]AAA (Stable)
INE296A08706	Subordinated Debt	Apr-26-13	9.65%	Apr-26-23	50.00	[ICRA]AAA (Stable)
INE296A08714	Subordinated Debt	Sep-19-14	10.15%	Sep-19-24	452.50	[ICRA]AAA (Stable)
INE296A08755	Subordinated Debt	Oct-21-15	8.94%	Oct-21-25	40.00	[ICRA]AAA (Stable)
INE296A08763	Subordinated Debt	Nov-09-15	8.94%	Nov-07-25	250.00	[ICRA]AAA (Stable)
NA	Commercial Paper – Yet to be issued	NA	NA	NA	35,000.00	[ICRA]A1+
NA	Fixed Deposit	NA	NA	NA	NA	MAAA (Stable)

Source: Company

**Annexure-2: List of entities considered for consolidated analysis**

Company Name	BFL Ownership	Consolidation Approach
Bajaj Finance Limited	100.00% (rated entity)	Full Consolidation
Bajaj Housing Finance Limited	100.00%	Full Consolidation
Bajaj Financial Securities Limited	100.00%	Full Consolidation

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