ICRA

Bajaj Finance Limited

Instrument	Amount	Rating Action
Short Term Debt Programme	Rs 6500 crore (enhanced from Rs 5500 crore)	[ICRA]A1+ assigned for enhanced amount

ICRA has assigned a rating of [ICRA]A1+ (pronounced ICRA A one plus) to the enhanced Rs 6500 crore Short Term Debt programme(enhanced from Rs 5500 crore) of Bajaj Finance Limited. ICRA also has a rating of [ICRA]AA+(stable) (pronounced ICRA double A plus with a stable outlook) on the Rs 8000 crore Non Convertible Debenture programmed and Rs 1700 crore Subordinated Debt programme of Bajaj Finance Limited and rating of MAAA(stable) pronounced M triple A with a stable outlook) on the Fixed Deposits programme of the company.

The rating factors in BFL's track record to grow business (37% CAGR FY12-9MFY16 through expansion in product lines and geographical reach). Its profitable operations, its experienced management team, good systems and processes, good capitalization as well as strong ability to get fresh equity lead to very low credit profile despite its riskier borrower profile. Strong financial flexibility and comfortable liquidity profile also add to the strong credit profile of BFL.

The ratings continue to factor in strategic fit and the importance of BFL for Bajaj Finserv Limited and the ultimate holding company Bajaj Holdings and Investments Limited (BHIL) given that BFL is the Bajaj Group's only entity in the strategic consumer financing space and also supports the sales volumes of Bajaj Auto Limited (BAL). Owing to the strong group support, strategic importance of BFL, support should be forthcoming for the entity going forward as well.

The rating is constrained on account of in relatively high share of portfolio in relatively riskier segments (27% of the portfolio was in unsecured asset classes (personal loans, business loans), 16% in difficult to repossess asset classes like consumer durables and 8% in two/three wheeler loans (where the borrower profile is relatively riskier). Further, within the secured asset classes of home loans and Loans against property, the share of self employed segment is relatively high where the company relies on in-house expertise for assessing the debt repayment capacity of the borrowers. Although LTV on the portfolio is low, reducing the eventual losses, debt coverage indicators of such borrowers may have limited cushion to withstand income shocks.

BFLs capitalisation profile is good (Net Worth /Managed Advances (16.71% as on December 31, 2015) has been supported by good internal capital generation(ROE of 21.3% in 9MFY16) and regular external capital infusions. (Rs 1400 crore raised through qualified institutional placement in FY16 and 102 Crores received against share warrants from BFS. Further 306 Crores to be infused by BFS by December 2016). The rating also factors in BFLs dependence on wholesale funding sources (retail deposits accounted for 6% of overall borrowings as on December 31, 2015) and lack of diversity in earnings, however, ICRA has noted BFLs efforts to diversify its earning mix through distribution of third party products, wealth management products, EMI Cards, insurance income, etc. Hence, the share of fee based income is likely to increase going forward. Overall, ICRA expects the company to continue to profitably grow the business in line with its plan and the company's ability to keep a control on asset quality, and maintain prudent capitalization levels would be the key rating sensitivities.

As for liquidity, owing to its financial flexibility and a good capital structure, BFL enjoys a well matched asset liability maturity profile and therefore a comfortable liquidity position. BFL earns a blended yield of around 19% on its portfolio; the portfolio yield has declined over the years, owing to rising share of relatively safer, hence lower yielding products like home loans and LAP in its overall portfolio. With the cost of funds around 9.5%, the company earned interest spreads of around 8% in 9mFY16 leading to ROE of 20.3% in FY15. Going forward as well, ICRA expects BFLs profitability indicators (ROA) to remain at around 3% in the medium term provided the company is able to keep its credit costs under control. Further, though the reported Gross NPA% for BFL may increase as the company moves towards 90 day recognition norms till March 2018, as per the change in RBI guidelines, its credit provisions and profitability indicators are likely to remain stable since the company already has been providing in line with the revised guidelines since FY13.

Company Profile

Bajaj Finance Limited

Bajaj Finance Limited is a Non Banking Finance Company and a subsidiary of Bajaj Finserv Limited with a total managed portfolio of Rs 43452 crore as on December 31, 2015. As for the portfolio mix of Bajaj Finance Limited, 35% of the portfolio as on December 31, 2015 was towards home loans and loans against property, 8% in two and three wheeler manufactured by Group Company Bajaj Auto Limited (BAL), 16% in consumer durables and Lifestyle finance, followed by personal loans (15%), loan against shares (5%), small business loans (12%), rural finance (3%) , construction equipment (1%), vendor financing. (3%), financial institutions Lending and structured finance (1%). BFL reported a Profit after Tax (PAT) of Rs. 897.87 crore on an asset base of Rs 32811.20 crore vis-à-vis PAT of Rs 719 crore on an asset base of Rs 24618 crore in 2013-14. The company reported Gross NPA% of 1.29% as on December 31, 2015 (1.50 % as on March 31, 2015).

Bajaj Finserv Limited

Bajaj Finserv Limited is the holding company for the financial services business of the Bajaj group, which has investments in Bajaj Finance Limited, an NBFC that extends consumer finance loans, business loans and mortgage loans, in the insurance joint venture companies Bajaj Allianz Life Insurance Company Limited and Bajaj Allianz General Insurance Limited and in Bajaj Financial Solutions Limited, which is engaged in wealth management and advisory services. Bajaj Finserv held 57.53% stake in BFL as on December 31, 2015.

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