

Bajaj Finance Limited

Instrument	Amount	Rating Action
Non-Convertible Debentures Programme	Rs. 8000 crore	[ICRA]AA+ reaffirmed; outlook revised to positive from stable
Subordinated Debentures Programme	Rs. 1700 crore	[ICRA]AA+ reaffirmed; outlook revised to positive from stable
Fixed Deposit Programme	NA	MAAA (stable); reaffirmed
Short-Term Debt Programme	Rs. 6500 crore	[ICRA]A1+ reaffirmed

ICRA has reaffirmed the long term rating of [ICRA]AA+ (pronounced ICRA double A plus) for the Rs 8000 crore non-convertible debentures programme and Rs 1700 crore subordinated debentures programme of Bajaj Finance Limited (BFL). The outlook on the long term rating has been revised from Stable to Positive. ICRA has also reaffirmed the MAAA (stable) (pronounced M triple A with a stable outlook) for the fixed deposits programme and an [ICRA]A1+ (pronounced ICRA A one plus) to the Rs 6500 crore short term debt programme of BFL.

The revision in outlook factors in the expected improvement in BFL's business risk profile in the short to medium term following the company's strategy of diversifying its product mix—with an expansion into corporate lending, structured finance, and rural finance—and also expanding the geographical spread of its operations. ICRA notes that company has recorded a strong business growth (3-year CAGR of 36%) while maintaining good asset quality (gross NPA% of 1.23% as on March 31, 2016) and profitability (ROE of 20% in FY2016) in the past. Given that BFL is among the largest consumer finance lenders in the country and has access to a large customer database by virtue of being among the largest consumer finance lenders in India, ICRA expects it BFL to be able to continue to generate good business volumes going forward as well. While the share of unsecured and relatively risky segments in BFL's portfolio is high in ICRA's opinion the company's strong analytics and risk control processes enable it to efficiently manage the risk. ICRA believes that the company's initiatives in the mortgage segment (accounting for around 33% of the total portfolio as on March 31, 2016), including a shift to in-house origination model (from DSA-led origination) and introduction of prepayment penalty to reduce balance takeovers, should help in improving profitability in the segment. Further, given BFL's efforts to diversify its earning mix through distribution of third party products, the share of fee based income is expected to increase. Overall, going forward, the company's ability to maintain its asset quality, diversify its resource profile while developing the retail deposit franchise and maintain prudent capitalization levels would be the key rating sensitivities.

The ratings continue to factor in the strategic significance of BFL for its parent, Bajaj Finserv Limited and the ultimate holding company, Bajaj Holdings and Investments Limited; BFL is the only entity in the Bajaj group's engaged in the strategic consumer financing space and also supports the sales volumes of Bajaj Auto Limited (BAL). Owing to the strategic role of BFL, ICRA expects support should be forthcoming for the entity from the group going forward as well. BFL's experienced management team, good systems and processes, good capitalisation as well as demonstrated ability to raise fresh equity lead to very strong credit quality, despite its relatively risky borrower profile.

A high share of BFL's portfolio is in the relatively risky segments—26% in unsecured asset classes such as personal loans and business loans, 13% in difficult-to-repossess assets like consumer durables and 9% in two/three wheeler loans. Further, within the secured asset classes of home loans and loans against property, the share of self employed segment is relatively high with the company relying on in-house expertise for assessing the debt repayment capacity of the borrowers. Although LTV on the portfolio is low, debt coverage indicators of such borrowers may have limited cushion to withstand income shocks. Nevertheless, ICRA takes comfort from BFL's good risk management systems and internal control processes which should enable the company to mitigate the risks.

BFL's capitalisation profile is comfortable (networth/managed advances at 16.56% as on March 31, 2016) supported by good internal capital generation (ROE of 21.09% in FY16) and regular external capital raising (~Rs. 1500 crore in FY2016). Further, given its financial flexibility and comfortable capital structure, BFL has a well matched asset liability maturity profile and therefore a comfortable liquidity position.

BFL reported a blended yield of around 19% on its portfolio in FY2016; 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 9.2%, the company earned interest spreads of around 8.5% in FY2016 leading to ROE of 21.09%. ICRA expects BFL's 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 it moves towards 90-day recognition norms by March 2018, its credit provisions and profitability indicators are likely to remain stable as the company has been providing prudently in line with the revised guidelines since FY2013.

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 44,229 crore as on March 31, 2016. As on March 31, 2016, 33% of the company's portfolio was towards home loans and loans against property, 16% in personal loans, 13% in consumer durables, 9% in two and three wheelers manufactured by group company, BAL, followed by small business loans, loan against shares, rural finance, construction equipment, vendor financing, financial institutions lending and structured finance.

BFL reported a profit after tax of Rs. 1,278.52 crore on an asset base of Rs 46,456.52 crore in FY2016 vis-à-vis profit after tax of Rs 897.87 crore on an asset base of Rs 32,811.20 crore in FY2015. The company reported gross NPAs of 1.23% as on March 31, 2016 (1.50 % as on March 31, 2015).

Bajaj Finserv Limited

Bajaj Finserv Limited is the holding company for the financial services businesses 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 March 31, 2016.

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