



Bajaj Finance Limited

Instrument	Amount	Rating
Non Convertible Debenture Programme	Rs. 2000 crore	[ICRA]AA+(stable) assigned

ICRA has assigned an [ICRA]AA+(stable) (pronounced ICRA double A plus with a stable outlook) rating to the Rs 2000 crore Non Convertible Debenture Programme of Bajaj Finance Limited.* ICRA also has ratings of [ICRA]AA+(stable) on the Rs 6000 crore NCD Programme and Rs 1700 crore Subordinated Debt programme of the company. ICRA also has rating of [ICRA]A1+(pronounced ICRA A one plus) on the Rs 5500 crore STD/Commercial Paper Programme of the company.

BFL ratings factor in its BFLs diversified product mix, its ability to operate in moderate risk segments and while maintaining good profitability (ROA of 3.05% in Q1FY15) asset quality indicators (Gross NPA% of 1.69% as on June 30, 2015). The rating also factors its good capitalisation indicators (Gearing 4.07 times as on June 30, 2015) and comfortable liquidity position.

The ratings continue to factor in BFLs experienced management team, good loan origination systems and processes, good financial flexibility given its diversified funding profile at competitive costs albeit largely from wholesale funding sources and adequate liquidity profile.

BFLs capitalisation profile has been supported by good internal capital generation (ROE of 20.3% in FY16) and regular external capital infusions (BFL raised Rs 1400 crore through QIP issue and Rs 102 crore from parent Bajaj Finserv in Q1FY15).

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), which have demonstrated their support to BFL in the form of regular capital infusions. The strategic importance for the group is further augmented by the fact 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); 31% contribution in 2014-15. Owing to the strong group support, strategic importance of BFL, large pool of liquid investments at holding company levels (~Rs 6400 crore), support should be forthcoming for the entity going forward as well.

The rating also factors relatively low diversity in earnings and dependence on wholesale funding sources (share of deposits in overall funding mix was around 4% of the overall borrowings). 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 BFLs portfolio mix, the company had overall asset under management of Rs 35,538 crore and the portfolio of the company has been growing at a 3 year CAGR of 36% though expansion in product offerings as well as geographical expansion.

ICRA has noted the increase in share of relatively safer asset classes (Home Loans, Loans against Property, Loans against Shares, Vendor Finance) in the company's portfolio mix from 41% as on Mar-12 to 46% as on June 2015. However, 25% of its portfolio as on June 30, 2015 was towards unsecured business loans/personal loans, 16% towards consumer durable loans (where security cannot be enforced), 9% was in the two wheeler segment where the borrower profile is relatively riskier.

Further, within the share of self employed segment is relatively high in home loan and LAP segments and the company relies on in-house expertise for assessing the debt repayment capacity of the

* "For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications"



borrowers using both formal income proofs as well as ascertaining the cash flows from the business. 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. Nevertheless, ICRA takes comfort from BFL's good loan origination and underwriting processes which have enabled it to manage risks in the segment so far. However, given the inherent risk associated with the consumer finance segment, higher share of self employed segment and relatively higher ticket sizes in the mortgage segment it would be critical for the company to maintain strict control over its asset quality indicators going forward as well.

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 well below 10%, the company earned interest spreads of around 8% in FY15 (8.38% in FY2014) 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. Going forward, though the reported Gross NPA% for BFL may increase in line with 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 35538 crore as on June 30, 2015. As for the portfolio mix of Bajaj Finance Limited, 39% of the portfolio as on June 30, 2015 was towards home loans and loans against property, 9% in two and three wheeler manufactured by Group Company Bajaj Auto Limited (BAL), 16% in consumer durables and Lifestyle finance, followed by personal loans (14%), loan against shares (4%), small business loans (11%), rural finance (1%), construction equipment (1%), vendor financing. (4%), and infrastructure 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 1.69% as on June 30, 2015 (1.50 % as on March 31, 2015). Post capital infusion of Rs 1502 crore in Q1FY16 the company reported Tier 1 CRAR of 17.41% as on June 30, 2015(Overall CRAR of 20.72% as on June 30, 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 June 30, 2015

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