

Bajaj Finance Ltd.

July 27, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	486.80	0.00	[ICRA]AAA(Stable); withdrawn
Non-convertible Debenture Programme	1,858.90	1,858.90	[ICRA]AAA(Stable); reaffirmed
Subordinated Debt Programme	421.70	0.00	[ICRA]AAA(Stable); withdrawn
Subordinated Debt Programme	1,278.30	1,278.30	[ICRA]AAA(Stable); reaffirmed
Commercial Paper Programme	15,000	20,000	[ICRA]A1+; reaffirmed
Fixed Deposit Programme	NA	NA	MAAA (Stable); reaffirmed
Total	19,045.70	23,137.20	

Rating action

ICRA has reaffirmed the rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 20,000-crore commercial paper (CP) programme (enhanced from Rs. 15,000 crore), the rating of [ICRA]AAA (pronounced ICRA triple A) with a Stable outlook for the Rs. 1,858.90-crore non-convertible debenture (NCD) programme and the Rs. 1,278.30-crore subordinated debt programme as well as a rating of MAAA (pronounced M triple A) with a Stable outlook for the fixed deposit programme of Bajaj Finance Limited (BFL).

ICRA has withdrawn the rating of [ICRA]AAA with a Stable outlook assigned to BFL's Rs. 486.80-crore NCD programme. The rating was withdrawn at the request of the company. The company has fully redeemed the instruments on maturity and there is no amount outstanding against the rated instruments. ICRA has also withdrawn the rating of [ICRA]AAA with a Stable outlook assigned to BFL's Rs. 421.70-crore subordinated debt programme as there is no amount outstanding against the rated instrument. The rating was withdrawn at the request of the company.

Rationale

The ratings factor in BFL's track record of growing profitably through product diversification and geographical expansion, its experienced management team, and the good systems and risk management processes, which have enabled the company to report good risk-adjusted returns (RoE of 20.3% during FY2018) while maintaining prudent capitalisation levels (net worth/managed book of 19.27% as on March 31, 2018). Given that BFL is among the largest consumer finance lenders in the country and has access to a large customer database, ICRA expects it to grow profitably, going forward, as well.

While the share of the relatively-riskier segments in BFL's portfolio is high, in ICRA's opinion, the company's strong analytics and risk monitoring and control processes, and its focus on repeat customers with a credit history in the consumer durable and personal loan segments will enable it to efficiently manage the risk. ICRA notes that incremental booking in the mortgage business will be made by BFL's subsidiary, Bajaj Housing Finance. Therefore, the share of the other segments is likely to go up. Given BFL's efforts to diversify its earnings mix through the distribution of third-party products, the share of fee-based income is also expected to increase. Overall, going forward, the company's ability to maintain its asset quality

indicators, develop the retail deposit franchise further and maintain prudent capitalisation levels would be important from a credit perspective.

The ratings continue to factor in BFL's strategic significance to its parent, Bajaj Finserv Limited, and the ultimate holding company, Bajaj Holdings and Investments Limited (BHIL). BFL is the only entity in the Bajaj Group engaged in consumer financing. BFL also supports Bajaj Auto Limited's (BAL) sales volumes, financing a significant proportion of BAL's two- and three-wheeler sales. BFL's strategic importance to the Group is also demonstrated by the track record of timely capital support received from Bajaj Finserv. Apart from the company's comfortable liquidity profile, wherein it holds adequate buffer in liquid instruments and ready-to-draw sanctioned cash credit/ working capital demand loan (CC/WCDL) and term lines from various banks, ICRA also takes note of the comfortable liquidity at the holding company level (Bajaj Finserv and BHIL), which may support BFL if required in an unlikely event/extraordinary situation.

Outlook: Stable

ICRA believes that BFL will continue to benefit from its strategic importance to the Group, and hence the outlook is Stable. The outlook may be revised to Negative if there is a significant deterioration in the company's asset quality and profitability indicators, thereby adversely affecting its financial risk profile.

Key rating drivers

Credit strengths

High strategic importance to Group entities and strong support from parent and other Group companies - The ratings factor in BFL's strategic fit and its importance to Bajaj Finserv and, consequently, to the ultimate holding company, BHIL, given that BFL is Bajaj Group's flagship entity in the corporate and consumer financing space and undertakes lending operations across a wide array of products. BFL was the largest financier of Bajaj motorcycles and three-wheelers in FY2018. As on March 31, 2018, Bajaj Finserv held 54.99% of BFL. Owing to strong Group support and BFL's strategic importance to the Group, support should be forthcoming going forward as well.

Experienced management team and advanced IT systems backing business growth – BFL has a strong senior management team with the business heads having considerable experience in the lending space. It also has a comprehensive succession plan in place for its senior management to ensure seamless transition in case of a churn in management. The company's strong database and information management systems have supported its business growth and ensured seamless information flow throughout the organisation. The company has invested in technology for the advancement of its IT systems to reduce the turnaround time and enhance customer experience. The company uses proprietary software to streamline its loan collection and loan management systems.

Good internal control and risk management mechanisms – The extensive use of analytics and advanced technology to constantly monitor portfolio performance in order to maintain the asset quality provides comfort from a credit perspective, given the moderate portfolio risk profile. Early warning signals are analysed to identify potential stress accounts, thereby enabling proactive decision making. The company also benchmarks its portfolio performance regularly with other lenders in various geographies using credit bureau data. It also assesses its product performance against internal RoE benchmarks.

Diversified funding profile with a comfortable liquidity position – BFL has a diversified funding mix with reduced dependence on bank borrowings and increased share of debentures. Consequently, the cost of funds has declined. The share of bank borrowings reduced further to 31% as on March 31, 2018 from 35% as on March 31, 2017. NCDs formed 49% of the borrowings while 6% of the total borrowings was raised through commercial papers. In FY2018, the deposit book grew to 12% as on March 31, 2018 and further to 14% as on June 30, 2018 from 8% as on March 31, 2017. The

company's liquidity profile is comfortable, with a well-matched mix of short-term and long-term assets and liabilities. The company maintains an adequate liquidity buffer ranging from 5% to 7% of two months' average borrowing book. Further, the company has a liquidity policy in place, which, coupled with capital support from the ultimate parent (BHIL) that has a large pool of liquid investments, can be utilised in case of contingencies.

Healthy profitability indicators supported by revenue growth and controlled credit costs – With the yields on loans being largely stable in FY2018 compared to FY2017 and a decline of over 50 bps in the cost of funds, the company reported an increase in spreads (10.05% in FY2018 compared to 9.89% in FY2017), and hence net interest margin (NIM) (10.4% in FY2018 vs 9.7% in FY2017). At the same time, operating expenses in relation to average assets increased owing to geographical expansion. However, this was partly offset by the moderation in credit costs leading to BFL reporting a marginally higher return on average assets of 3.2% for FY2018 though the return on average net worth declined to 20.3% owing to an increased equity base following the Rs. 4,500-crore qualified institutional placement (QIP) issue in Q2 FY2018. Going forward, the cost of funds is expected to increase by 15-25 bps and a similar increase is expected in the yields as well.

Good internal capital generation and regular capital infusions support capitalisation profile – BFL's capitalisation profile is supported by good internal capital generation (RoE of 20.3% in FY2018) and regular external capital infusion (Rs. 4,500 crore in FY2018) leading to good capitalisation indicators (net worth/managed advances of 19.3% as of March 31, 2018). BFL's capital to risk-weighted assets (CAR) ratio remained comfortably above the regulatory requirement as on March 31, 2018 with a Tier I capital ratio of 19.7%.

Credit challenges

To maintain asset quality indicators – Given the high share of unsecured/difficult-to-possess collateral-backed loans (54% as on March 31, 2018 versus 51% as on March 31, 2017), the company's ability to maintain its asset quality indicators over economic cycles would be a key monitorable.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[ICRA's Credit Rating Methodology for Non-Banking Finance Companies](#)

About the company

Bajaj Finance Ltd.

Bajaj Finance Ltd. is a non-banking finance company and a subsidiary of Bajaj Finserv Limited, with a total managed portfolio of Rs. 81,330 crore as on March 31, 2018. As on March 31, 2018, 20% of the portfolio was towards home loans and loan against property (LAP), which will incrementally be booked under Bajaj Housing Finance Limited (BHFL). While 14% of the portfolio was towards the consumer durable book, 33% was for personal loans including business loans, professional loans, salaried personal loans and personal loans cross sell. Overall, the share of semi-secured and unsecured products was 54% while secured products contributed 34% to the portfolio.

BFL reported profit after tax (PAT) of Rs. 2,647 crore on an asset base of Rs. 83,629 crore in FY2018 vis-à-vis PAT of Rs. 1,837 crore on an asset base of Rs. 63,730 crore in FY2017. The company reported gross NPAs of 1.48% as on March 31, 2018 and net NPA of 0.38%.

Bajaj Finserv Limited

Bajaj Finserv Limited, the holding company for Bajaj Group's financial services businesses, has investments in BFL, in insurance joint venture companies - Bajaj Allianz Life Insurance Company Limited and Bajaj Allianz General Insurance

Limited, and in Bajaj Financial Solutions Limited, which provides wealth management and advisory services. Bajaj Finserv held a 54.99% stake in BFL as on June 30, 2018.

Key financial indicators

	FY2016	FY2017	FY2018
Total Income	7,361	9,939	13,237
Profit After Tax (PAT)	1,279	1,837	2,647
Net Worth	7,325	9,600	16,518
Total Managed Portfolio	44,229	61,045	81,330
Total Managed Assets	47,930	67,093	86,948
Return on Managed Assets (PAT/AMA)	3.1%	3.2%	3.5%
Return on Average Net Worth (PAT/Avg. Net Worth)	21.1%	21.7%	20.3%
Gearing	5.0	5.1	3.9
Gross NPA	1.23%	1.68%	1.48%
Net NPA	0.28%	0.44%	0.38%
Net NPA/Net Worth	1.7%	2.6%	1.8%
CRAR	19.50%	20.30%	24.71%

Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years							
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	FY2019	FY2018			FY2017		FY2016	
				Jul-18		May-18	Oct-17	Jun-17	May-17	Feb-17	Oct-16	Jul-16
Non-Convertible Debentures	Long Term	1,858.90	1,858.90	[ICRA]AAA (Stable)	[ICRA]AAA(Stable)	[ICRA]AAA(Stable)	[ICRA]AA (Stable)	[ICRA]AA+(Positive)	[ICRA]AA+(Positive)	[ICRA]AA+(Positive)	[ICRA]AA+(Positive)	[ICRA]AA+(Stable)
Non-Convertible Debentures	Long Term	486.80	0.00	[ICRA]AAA (Stable) withdrawn	[ICRA]AAA(Stable)	[ICRA]AAA(Stable)	[ICRA]AA (Stable)	[ICRA]AA+(Positive)	[ICRA]AA+(Positive)	[ICRA]AA+(Positive)	[ICRA]AA+(Positive)	[ICRA]AA+(Stable)
Subordinated Debt Programme	Long Term	1,278.30	1,278.30	[ICRA]AAA(Stable)	[ICRA]AAA(Stable)	[ICRA]AAA(Stable)	[ICRA]AA (Stable)	[ICRA]AA+(Positive)	[ICRA]AA+(Positive)	[ICRA]AA+(Positive)	[ICRA]AA+(Positive)	[ICRA]AA+(Stable)
Subordinated Debt Programme	Long Term	421.70	0.00	[ICRA]AAA(Stable) withdrawn	[ICRA]AAA(Stable)	[ICRA]AAA(Stable)	[ICRA]AA (Stable)	[ICRA]AA+(Positive)	[ICRA]AA+(Positive)	[ICRA]AA+(Positive)	[ICRA]AA+(Positive)	[ICRA]AA+(Stable)
Commercial paper Programme	Short Term	20,000	20,000	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	ICRA]A1+(rated amount enhanced to Rs. 15,000 crore from Rs. 10,000 crore)	[ICRA]A1+(rated amount enhanced to Rs. 10,000 crore from Rs. 8,500 crore)	[ICRA]A1+(rated amount enhanced to Rs. 8,500 crore from Rs. 6,500 crore)	[ICRA]A1+	[ICRA]A1+

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years							
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	FY2019	FY2018			FY2017		FY2016	
						Oct-17	Jun-17	May-17	Feb-17	Oct-16	Jul-16	Mar-16
Fixed Deposit Programme	F D	NA NA		MAAA(stable)	MAAA(stable)	MAAA(stable)	MAAA(stable)	MAAA(stable)			MAAA(stable)	MAAA(stable)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Non-Convertible Debenture	INE296A07AY3	15-Apr-14	10.00%	15-Apr-19	10.00	[ICRA]AAA(stable)
Non-Convertible Debenture	INE296A07BZ8	22-Aug-14	9.66%	22-Aug-19	10.00	[ICRA]AAA(stable)
Non-Convertible Debenture	INE296A07DT7	31-Oct-14	9.40%	31-Oct-19	175.00	[ICRA]AAA(stable)
Non-Convertible Debenture	INE296A07DY7	11-Nov-14	9.25%	11-Nov-19	15.00	[ICRA]AAA(stable)
Non-Convertible Debenture	INE296A07GJ1	10-Apr-15	8.95%	10-Apr-20	810.00	[ICRA]AAA(stable)
Non-Convertible Debenture	INE296A07HB6	23-Jun-15	8.90%	16-Jul-18	21.90	[ICRA]AAA(stable)
Non-Convertible Debenture	INE296A07HC4	23-Jun-15	8.90%	7-Jan-19	10.00	[ICRA]AAA(stable)
Non-Convertible Debenture	INE296A07HJ9	23-Jul-15	8.90%	12-Jul-18	34.00	[ICRA]AAA(stable)
Non-Convertible Debenture	INE296A07HK7	23-Jul-15	8.90%	17-Jul-18	5.00	[ICRA]AAA(stable)
Non-Convertible Debenture	INE296A07HL5	23-Jul-15	8.90%	19-Jul-18	20.00	[ICRA]AAA(stable)
Non-Convertible Debenture	INE296A07HM3	23-Jul-15	8.90%	23-Jul-18	40.00	[ICRA]AAA(stable)
Non-Convertible Debenture	INE296A07HN1	23-Jul-15	8.90%	25-Jul-18	16.00	[ICRA]AAA(stable)
Non-Convertible Debenture	INE296A07HO9	23-Jul-15	8.90%	30-Jul-18	6.00	[ICRA]AAA(stable)
Non-Convertible Debenture	INE296A07HP6	23-Jul-15	8.85%	23-Jul-18	5.00	[ICRA]AAA(stable)
Non-Convertible Debenture	INE296A07HT8	14-Aug-15	8.80%	14-Aug-18	325.00	[ICRA]AAA(stable)

Non-Convertible Debenture	INE296A07HU6	14-Aug-15	8.80%	16-Aug-18	44.00	[ICRA]AAA(stable)
Non-Convertible Debenture	INE296A07HV4	14-Aug-15	8.80%	21-Aug-18	32.00	[ICRA]AAA(stable)
Non-Convertible Debenture	INE296A07HZ5	29-Sep-15	8.80%	29-Sep-20	47.00	[ICRA]AAA(stable)
Non-Convertible Debenture	INE296A07HW2	20-Aug-15	8.90%	20-Aug-25	90.00	[ICRA]AAA(stable)
Non-Convertible Debenture	INE296A07HX0	20-Aug-15	8.80%	20-Aug-20	15.00	[ICRA]AAA(stable)
Non-Convertible Debenture	INE296A07HY8	14-Sep-15	8.80%	14-Sep-20	10.00	[ICRA]AAA(stable)
Non-Convertible Debenture	INE296A07IA6	13-Oct-15	8.70%	13-Oct-25	5.00	[ICRA]AAA(stable)
Non-Convertible Debenture	INE296A07IB4	13-Oct-15	8.65%	13-Oct-22	8.00	[ICRA]AAA(stable)
Non-Convertible Debenture	INE296A07CD3	2-Sep-14	9.45%	2-Sep-19	85.00	[ICRA]AAA(stable)
Non-Convertible Debenture	INE296A07JI7	26-Feb-16	8.80%	26-Feb-21	10.00	[ICRA]AAA(stable)
Non-Convertible Debenture	INE296A07JI7	26-Feb-16	8.80%	26-Feb-21	10.00	[ICRA]AAA(stable)
Non-Convertible Debenture	INE296A07GE2	10-Apr-15	8.90%	2-May-18	50.00	[ICRA]AAA(stable) withdrawn
Non-Convertible Debenture	INE296A07GF9	10-Apr-15	8.90%	11-Jun-18	40.00	[ICRA]AAA(stable) withdrawn
Non-Convertible Debenture	INE296A07GH5	10-Apr-15	8.89%	11-Jun-18	150.00	[ICRA]AAA(stable) withdrawn
Non-Convertible Debenture	INE296A07GY0	23-Jun-15	8.90%	12-Jun-18	8.00	[ICRA]AAA(stable) withdrawn
Non-Convertible Debenture	INE296A07GZ7	23-Jun-15	8.90%	18-Jun-18	11.50	[ICRA]AAA(stable) withdrawn
Non-Convertible Debenture	INE296A07HA8	23-Jun-15	8.90%	19-Jun-18	40.00	[ICRA]AAA(stable) withdrawn

Non-Convertible Debenture	INE296A07GG7	10-Apr-15	8.90%	20-Jun-18	37.30	[ICRA]AAA(stable) withdrawn
Non-Convertible Debenture	INE296A07GI3	10-Apr-15	8.89%	20-Jun-18	150.00	[ICRA]AAA(stable) withdrawn
Subordinate Debt	INE296A08359	19-Apr-10	9.75%	19-Apr-20	55.00	[ICRA]AAA(stable)
Subordinate Debt	INE296A08359	6-May-10	9.75%	19-Apr-20	10.00	[ICRA]AAA(stable)
Subordinate Debt	INE296A08425	1-Jun-10	9.50%	1-Jun-20	50.00	[ICRA]AAA(stable)
Subordinate Debt	INE296A08433	2-Jul-10	9.45%	2-Jul-20	50.00	[ICRA]AAA(stable)
Subordinate Debt	INE296A08466	28-Sep-10	9.60%	28-Sep-20	27.50	[ICRA]AAA(stable)
Subordinate Debt	INE296A08474	29-Oct-10	9.55%	29-Oct-20	36.20	[ICRA]AAA(stable)
Subordinate Debt	INE296A08490	18-May-11	9.83%	18-May-21	50.00	[ICRA]AAA(stable)
Subordinate Debt	INE296A08656	14-Jun-12	10.21%	22-Aug-22	10.00	[ICRA]AAA(stable)
Subordinate Debt	INE296A08656	15-Jun-12	10.21%	22-Aug-22	15.40	[ICRA]AAA(stable)
Subordinate Debt	INE296A08656	20-Jun-12	10.21%	22-Aug-22	3.00	[ICRA]AAA(stable)
Subordinate Debt	INE296A08656	28-Jun-12	10.21%	22-Aug-22	2.60	[ICRA]AAA(stable)
Subordinate Debt	INE296A08656	25-Jul-12	10.21%	22-Aug-22	4.40	[ICRA]AAA(stable)
Subordinate Debt	INE296A08656	2-Aug-12	10.21%	22-Aug-22	4.00	[ICRA]AAA(stable)
Subordinate Debt	INE296A08656	17-Aug-12	10.21%	22-Aug-22	118.00	[ICRA]AAA(stable)
Subordinate Debt	INE296A08672	28-Jan-13	9.80%	28-Jan-23	49.70	[ICRA]AAA(stable)

Subordinate Debt	INE296A08706	26-Apr-13	9.65%	26-Apr-23	50.00	[ICRA]AAA(stable)
Subordinate Debt	INE296A08714	19-Sep-14	10.15%	19-Sep-24	452.50	[ICRA]AAA(stable)
Subordinate Debt	INE296A08755	21-Oct-15	8.94%	21-Oct-25	40.00	[ICRA]AAA(stable)
Subordinate Debt	INE296A08763	9-Nov-15	8.94%	7-Nov-25	250.00	[ICRA]AAA(stable)
Subordinate Debt	NA	NA	NA	NA	421.70	[ICRA]AAA(stable) withdrawn
NA	Fixed Deposit Programme	NA	NA	NA	-	MAAA (stable)
NA	Short-term Debt Programme	NA	NA	Less than 365 days	20,000.00	[ICRA]A1+

Source: Bajaj Finance Ltd.

ANALYST CONTACTS

Karthik Srinivasan

+91 22 61143444

karthiks@icraindia.com

Supreeta Nijjar

+91 124 4545 324

supreetan@icraindia.com

Deeksha Agarwal

+91 124 4545 833

deeksha.agarwal@icraindia.com

Sainath Chandrasekaran

+91 22 61143439

sainath.chandrasekaran@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents