

## Bajaj Finance Ltd.

November 13, 2018

### Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	548.90	0.00	[ICRA]AAA(Stable); withdrawn
Non-convertible Debenture Programme	1,310.00	1,310.00	[ICRA]AAA(Stable); outstanding
Subordinated Debt Programme	1,278.30	1,278.30	[ICRA]AAA(Stable); outstanding
Commercial Paper Programme	20,000	20,000	[ICRA]A1+; outstanding
Fixed Deposit Programme	NA	NA	MAAA (Stable); outstanding
<b>Total</b>	<b>23,137.20</b>	<b>22,588.30</b>	

### Rating action

ICRA has withdrawn the rating of [ICRA]AAA (pronounced as ICRA triple A) with a Stable outlook outstanding on the Rs. 548.90-crore non-convertible debenture (NCD) programme of Bajaj Finance Limited (BFL). The withdrawal was made 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 re-affirmed the outstanding short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) on the Rs. 20,000-crore commercial paper (CP) programme, the outstanding long-term rating of [ICRA]AAA with a Stable outlook for the Rs. 1,310.00-crore (reduced from Rs. 1,858.90 crore) NCD programme and the Rs. 1,278.30-crore subordinated debt programme as well as the outstanding medium-term rating of MAAA (pronounced M triple A) with a Stable outlook for the fixed deposit programme of BFL<sup>1</sup>.

### 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 H1FY2019) while maintaining prudent capitalisation levels (net worth/managed advances of 19.78% as on September 30, 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

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

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 the lending business. 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. 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 September 30, 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 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. BFL 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 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 NCDs constituting the highest share of total borrowings at 35% followed by bank borrowings at 34% as on September 30, 2018. In H1 FY2019, the deposit book grew to 15% as on September 30, 2018 from 12% as on March 31, 2018. The company's liquidity profile is comfortable, with a well-matched mix of short-term and long-term assets and liabilities. It maintains an adequate liquidity buffer ranging from 5% to 7% of two months' average borrowing book. Further, the company has a

liquidity policy, 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. Moreover, the company is well positioned to at least partly pass on any rise in the cost of funds to the consumer.

**Healthy profitability indicators supported by revenue growth and controlled credit costs** – A gradual price increase led the company into reporting a slight increase in yields on loans in Q2FY2019 as compared to the previous two quarters. The cost of funds for the quarter increased marginally on a sequential basis to 7.9%, contributing further to an increase in the lending spread to 11.3% for Q2 FY2019 from 11% for Q1 FY2019. The net interest margin (NIM) was 11.2% in Q2 FY2019 while operating expenses in relation to average managed assets increased to 3.97% compared to 3.92% for Q1 FY2019 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 and return on average net worth of 3.94% and 21.3% respectively for Q2 FY2019.

**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% for H1FY2019 and FY2018) and regular external capital infusion (Rs. 4,500 crore in FY2018) leading to good capitalisation indicators (net worth/managed advances of 19.78% as on September 30, 2018 vs. 19.3% as of March 31, 2018). BFL's capital to risk-weighted assets (CAR) ratio remained comfortably above the regulatory requirement as on September 30, 2018 with a Tier I capital ratio of 17.17%.

## Credit challenges

**To maintain asset quality indicators** – Given the high share of unsecured/difficult-to-possess collateral-backed loans (57% as on September 30, 2018 versus 54% as on March 31, 2018), 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. is a non-banking finance company and a subsidiary of Bajaj Finserv Limited, with a total managed portfolio of Rs. 90,811 crore as on September 30, 2018. The mortgage book continues to run down as fresh mortgage loans are being booked under Bajaj Housing Finance Limited (BHFL). As on September 30, 2018, 13% of the portfolio was towards home loans and loan against property (LAP) while 11% was towards the consumer durable book and 36% 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 60% while secured products contributed 26% to the portfolio.

BFL reported profit after tax (PAT) of Rs. 1,754 crore on an asset base of Rs. 93,895 crore for H1FY2019 compared to a net profit of Rs. 2,647 crore on an asset base of Rs. 86,948 crore in FY2018. The company reported gross NPAs of 1.49% and net NPA of 0.53% as on September 30, 2018 on a consolidated basis.

### Bajaj Finserv Limited

Bajaj Finserv Limited, the holding company of the 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 September 30, 2018.

## Key financial indicators

	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>H1FY2019</b>
Total Income	7,361	9,939	13,237	7,889
Profit after Tax (PAT)	1,279	1,837	2,647	1,754
Net Worth	7,325	9,600	16,518	17,366
Total Managed Portfolio	44,229	61,045	81,330	90,811
Total Managed Assets	47,930	67,093	86,948	93,895
Return on Managed Assets (PAT/AMA)	3.1%	3.2%	3.5%	3.8%
Return on Average Net Worth (PAT/Avg. Net Worth)	21.1%	21.7%	20.3%	20.3%
Gearing	5.0	5.1	3.9	4.2
Gross NPA	1.23%	1.68%	1.48%	1.49%
Net NPA	0.28%	0.44%	0.38%	0.53%
Net NPA/Net Worth	1.7%	2.6%	1.9%	2.9%
CRAR	19.50%	20.30%	24.71%	22.13%

Source: Company, ICRA research; Amount in Rs. crore

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

**Any other information: None**

### Rating history for last three years:

Instrument	Type	Current Rating (FY2019)		Chronology of Rating History for the past 3 years										
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating			FY2018			FY2017			FY2016	
				Nov-18	Jul-18	May-18	Oct-17	Jun-17	May-17	Feb-17	Oct-16	Jul-16	Mar-16	
Non-Convertible Debentures	Long Term	1,310.0	1,310.0	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA+(Positive)	[ICRA]AA+(Positive)	[ICRA]AA+(Positive)	[ICRA]AA+(Positive)	[ICRA]AA+(Positive)
Subordinated Debt Programme	Long Term	1,278.3	1,278.3	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA+(Positive)	[ICRA]AA+(Positive)	[ICRA]AA+(Positive)	[ICRA]AA+(Positive)	[ICRA]AA+(Positive)	[ICRA]AA+(Positive)
Commercial Paper Programme	Short Term	20,000	20,000	[ICRA]A1+	[ICRA]A1+ (rated amount enhanced to Rs. 20,000 crore from Rs. 15,000 crore)	[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+	[ICRA]A1+
Fixed Deposit Programme	Medium Term	NA	NA	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	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](http://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	INE296A07HC4	23-Jun-15	8.90%	7-Jan-19	10.00	[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	INE296A07HB6	23-Jun-15	8.90%	16-Jul-18	21.90	[ICRA]AAA(stable); withdrawn
Non-Convertible Debenture	INE296A07HJ9	23-Jul-15	8.90%	12-Jul-18	34.00	[ICRA]AAA(stable); withdrawn
Non-Convertible Debenture	INE296A07HK7	23-Jul-15	8.90%	17-Jul-18	5.00	[ICRA]AAA(stable); withdrawn
Non-Convertible Debenture	INE296A07HL5	23-Jul-15	8.90%	19-Jul-18	20.00	[ICRA]AAA(stable); withdrawn
Non-Convertible Debenture	INE296A07HM3	23-Jul-15	8.90%	23-Jul-18	40.00	[ICRA]AAA(stable); withdrawn
Non-Convertible Debenture	INE296A07HN1	23-Jul-15	8.90%	25-Jul-18	16.00	[ICRA]AAA(stable); withdrawn
Non-Convertible Debenture	INE296A07HO9	23-Jul-15	8.90%	30-Jul-18	6.00	[ICRA]AAA(stable); withdrawn
Non-Convertible Debenture	INE296A07HP6	23-Jul-15	8.85%	23-Jul-18	5.00	[ICRA]AAA(stable); withdrawn
Non-Convertible	INE296A07HT8	14-Aug-15	8.80%	14-Aug-18	325.00	[ICRA]AAA(stable);

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook	
	Debenture					withdrawn	
	Non-Convertible Debenture	INE296A07HU6	14-Aug-15	8.80%	16-Aug-18	44.00	[ICRA]AAA(stable); withdrawn
	Non-Convertible Debenture	INE296A07HV4	14-Aug-15	8.80%	21-Aug-18	32.00	[ICRA]AAA(stable); withdrawn
	Subordinated Debt	INE296A08359	19-Apr-10	9.75%	19-Apr-20	55.00	[ICRA]AAA(stable)
	Subordinated Debt	INE296A08359	6-May-10	9.75%	19-Apr-20	10.00	[ICRA]AAA(stable)
	Subordinated Debt	INE296A08425	1-Jun-10	9.50%	1-Jun-20	50.00	[ICRA]AAA(stable)
	Subordinated Debt	INE296A08433	2-Jul-10	9.45%	2-Jul-20	50.00	[ICRA]AAA(stable)
	Subordinated Debt	INE296A08466	28-Sep-10	9.60%	28-Sep-20	27.50	[ICRA]AAA(stable)
	Subordinated Debt	INE296A08474	29-Oct-10	9.55%	29-Oct-20	36.20	[ICRA]AAA(stable)
	Subordinated Debt	INE296A08490	18-May-11	9.83%	18-May-21	50.00	[ICRA]AAA(stable)
	Subordinated Debt	INE296A08656	14-Jun-12	10.21%	22-Aug-22	10.00	[ICRA]AAA(stable)
	Subordinated Debt	INE296A08656	15-Jun-12	10.21%	22-Aug-22	15.40	[ICRA]AAA(stable)
	Subordinated Debt	INE296A08656	20-Jun-12	10.21%	22-Aug-22	3.00	[ICRA]AAA(stable)
	Subordinated Debt	INE296A08656	28-Jun-12	10.21%	22-Aug-22	2.60	[ICRA]AAA(stable)
	Subordinated Debt	INE296A08656	25-Jul-12	10.21%	22-Aug-22	4.40	[ICRA]AAA(stable)
	Subordinated Debt	INE296A08656	2-Aug-12	10.21%	22-Aug-22	4.00	[ICRA]AAA(stable)
	Subordinated Debt	INE296A08656	17-Aug-12	10.21%	22-Aug-22	118.00	[ICRA]AAA(stable)
	Subordinated Debt	INE296A08672	28-Jan-13	9.80%	28-Jan-23	49.70	[ICRA]AAA(stable)
	Subordinated Debt	INE296A08706	26-Apr-13	9.65%	26-Apr-23	50.00	[ICRA]AAA(stable)
	Subordinated Debt	INE296A08714	19-Sep-14	10.15%	19-Sep-24	452.50	[ICRA]AAA(stable)
	Subordinated Debt	INE296A08755	21-Oct-15	8.94%	21-Oct-25	40.00	[ICRA]AAA(stable)
	Subordinated Debt	INE296A08763	9-Nov-15	8.94%	7-Nov-25	250.00	[ICRA]AAA(stable)
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.

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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](http://www.icra.in)



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