

Bajaj Finance Limited

July 10, 2017

Ratings

Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Non-convertible debentures	1,545	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Subordinated debt	3,455	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Issuer Rating *	-	CARE AAA(Is); Stable (Triple A [Issuer]; Outlook: Stable)	Reaffirmed
Total	5,000 (Rupees Five Thousand Crore Only)		

*The rating is subject to the company maintaining overall gearing not exceeding 7 times

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings continue to factor in the strong parentage and strategic importance of Bajaj Finance Limited (BFL) for Bajaj Group, experienced management team, good profitability parameters, comfortable asset quality, comfortable liquidity profile, diversified resource profile, comfortable capitalization and good risk management systems. The ratings also take into account the exposure of BFL to relatively riskier segments like personal loans, unsecured business loans, two & three wheeler financing and consumer durable financing. Continued parentage and strategic importance to the group, overall gearing and capitalization levels, asset quality and profitability are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage & strategic importance to Bajaj Group: Bajaj Finance Limited is a subsidiary of Bajaj Finserv Limited which holds a 57.80% stake (as on March 31, 2017) in BFL. The ultimate holding company is Bajaj Holdings & investments Limited (BHIL) which holds 39.16% stake in BFL and 31.54% stake in Bajaj Auto as on March 31, 2017. BFL is a strategically important entity for the Bajaj group being the group's only lending entity and has a profitable track record.

Experienced management team: BFL is headed by Mr. Rajeev Jain who is the Managing Director and also on the Board of Directors. BFL's various business segments are headed by personnel with relevant experience in their respective fields.

Good profitability: During FY13 to FY17, the AUM have grown at a healthy CAGR of 34% to Rs.60,194 crore. BFL has exhibited strong profitability with return on total assets (ROTA) of consistently above 3% driven by a robust net interest margin (NIM) of around 9%. The company has maintained good asset quality with provisioning cost as a proportion of assets in the range of 1.3-1.5%. BFL earned a net profit of Rs.1,837 crore (P.Y.: Rs.1,279 crore) on a total income of Rs.10,003 crore (P.Y.: Rs.7,383 crore) in FY17.

Comfortable asset quality: BFL has maintained stable asset quality for the past few years with Gross and Net NPA (%) of 1.68% [P.Y.: 1.24%] and 0.44% [P.Y.:0.29%] (120+dpd basis) at the end of March 2017. The company has adequately provided for the non-performing assets with provision coverage of 74% as on March 31, 2017. Net NPA to Net worth stood at just 2.80% at the end of FY17.

Comfortable liquidity: BFL has a comfortable liquidity profile with positive cumulative mismatches in all the time brackets due to well matched tenure of assets and liabilities. The company has a policy of keeping certain proportion of its past month's average borrowing as liquidity buffers in the form of investment in liquid mutual funds, government securities and certificate of deposits which provides additional comfort to the liquidity profile.

Comfortable capital adequacy: BFL has been maintaining comfortable capital adequacy despite the strong growth in business. The capitalization is supported by healthy internal accruals and capital infusion at regular intervals. Capital adequacy ratio (CAR) stood at 20.30% with a Tier I CAR of 14.56% at the end of March 2017 as against CAR of 19.50% with Tier I CAR of 16.06% as on March 31, 2016.

¹Complete definitions of the ratings assigned are available at www.careratings.com and other CARE publications.

Diversified funding source: As on March 31, 2017, BFL's funding profile is well diversified with bank funding accounting for 35% of total borrowings, non-convertible debentures (including subordinated debt) (47%), commercial papers (9%), fixed deposits (7%), ICDs (1%) and CBLO (1%). Further being part of the Bajaj group helps BFL in mobilizing funds at cost effective rates.

Good risk management system: BFL has a very high focus on the risk management infrastructure to manage delinquency levels and to target the right customer for its various products. The risk and analytics department has built statistical models to capture the various parameters of the customers and the delinquency levels in each of the product segments.

Key Rating Weaknesses

Presence in unsecured and relatively riskier segments: BFL has exposure to riskier segments like personal loans, consumer durable financing, two & three wheeler financing and unsecured business loans which constitute 50% of the loan portfolio as on March 31, 2017. However, despite exposure to these segments the company has maintained stable asset quality. Also on the provisioning front, BFL has aggressively provided for these segments.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE Policy on Default Recognition](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Rating Methodology- Non-Banking Finance Companies](#)

[Financial ratios - Financial Sector](#)

About the Company

BFL is a systemically important deposit taking non-banking finance company of the Bajaj Group. BFL is a subsidiary of Bajaj Finserv Limited which holds 57.80% stake (as on March 31, 2017) in the company and is the holding company of the financial services business of the Bajaj Group. Bajaj Holdings and Investment Limited (BHIL) which is the ultimate holding company holds 39.16% stake in Bajaj Finserv and 31.54% in Bajaj Auto Limited (BAL) as on March 31, 2017. BFL is one of the leading NBFC in India having a diversified loan book with exposure in various segments like consumer finance, SME finance, commercial finance and rural finance. The various products in these segments as at March 2017 are home loan and loan against property (27% of AUM), consumer durable loans (13%), personal loans (16%), business loans (12%), two and three wheeler financing (8%), loan against securities (7%), rural finance (5%), vendor financing (3%), construction equipment and infra loans (1%) and financial institutions lending and structured finance (2%). At the end of March 2017, BFL had assets under management of Rs.60,194 crore. BFL had 318 consumer branches and covers 538 rural locations with over 38,000 touch points at the end of March 31, 2017.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures- Non-convertible debentures	4-Jul-16	8.65%	3-Jul-26	47.50	CARE AAA; Stable
Debentures- Non-convertible debentures	14-Jul-16	8.55%	14-Jul-21	15.00	CARE AAA; Stable
Debentures- Non-convertible debentures	28-Jul-16	8.47%	28-Jul-21	100.00	CARE AAA; Stable
Debentures- Non-convertible debentures	2-Aug-16	8.40%	2-Aug-21	25.00	CARE AAA; Stable
Debentures- Non-convertible debentures	10-Aug-16	8.36%	10-Aug-21	160.00	CARE AAA; Stable
Debentures- Non-convertible debentures	11-Aug-16	8.36%	11-Aug-21	25.00	CARE AAA; Stable
Debentures- Non-convertible debentures	8-Sep-16	8.04%	10-May-21	35.00	CARE AAA; Stable
Debentures- Non-convertible debentures	8-Sep-16	8.00%	8-Sep-20	50.00	CARE AAA; Stable
Debentures- Non-convertible debentures	8-Sep-16	7.99%	25-May-20	50.00	CARE AAA; Stable
Debentures- Non-convertible debentures	8-Sep-16	8.00%	11-Sep-19	140.00	CARE AAA; Stable
Debentures- Non-convertible debentures	16-Sep-16	7.90%	16-Sep-19	175.00	CARE AAA; Stable
Debentures- Non-convertible debentures	16-Sep-16	7.90%	16-Sep-19	205.50	CARE AAA; Stable
Debentures- Non-convertible debentures	16-Sep-16	7.90%	11-Sep-19	48.50	CARE AAA; Stable
Debentures- Non-convertible debentures	16-Sep-16	7.90%	16-Sep-19	100.00	CARE AAA; Stable
Debentures- Non-convertible debentures	23-Sep-16	8.05%	23-Sep-26	10.00	CARE AAA; Stable
Debentures- Non-convertible debentures	7-Dec-16	7.50%	7-Dec-21	30.00	CARE AAA; Stable
Debentures- Non-convertible debentures	13-Jan-17	7.70%	13-Jan-22	77.00	CARE AAA; Stable
Debentures- Non-convertible debentures	27-Mar-17	7.85%	28-Mar-22	37.00	CARE AAA; Stable
Debentures- Non-convertible debentures (Proposed)	-	-	-	214.50	CARE AAA; Stable
Debt-Subordinate Debt	15-Jul-16	8.85%	15-Jul-26	490.00	CARE AAA; Stable
Debt-Subordinate Debt	21-Jul-16	8.85%	21-Jul-26	480.00	CARE AAA; Stable
Debt-Subordinate Debt	16-Aug-16	8.75%	14-Aug-26	485.00	CARE AAA; Stable
Debt-Subordinate Debt	29-Sep-16	8.45%	29-Sep-26	500.00	CARE AAA; Stable
Debt-Subordinate Debt	02-Dec-16	8.05%	02-Dec-26	105.00	CARE AAA; Stable
Debt-Subordinate Debt	22-Jun-17	8.15%	22-Jun-27	600.00	CARE AAA; Stable
Debt-Subordinate Debt (Proposed)	-	-	-	795.00	CARE AAA; Stable
Issuer Ratings	-	-	-	-	CARE AAA (Is); Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Issuer Rating-Issuer Ratings	Issuer rating	-	CARE AAA (Is); Stable	-	1) CARE AAA (Is); Stable (26-Dec-16) 2) CARE AAA (Is) (09-Jun-16)	-	-
2.	Debentures-Non Convertible Debentures	LT	1,545.00	CARE AAA; Stable	1) CARE AAA; Stable (12-Jun-17)	1) CARE AAA; Stable (26-Dec-16) 2) CARE AAA (19-Aug-16) 3) CARE AAA (09-Jun-16)	-	-
3.	Debt-Subordinate Debt	LT	3,455.00	CARE AAA; Stable	1) CARE AAA; Stable (12-Jun-17)	1) CARE AAA; Stable (26-Dec-16) 2) CARE AAA (19-Aug-16) 3) CARE AAA (09-Jun-16)	-	-

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