

Bajaj Finance Limited

April 01, 2020

Ratings

Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Non-convertible debentures	1,016 (Rupees One Thousand and Sixteen crore only) (Reduced from Rs.1,545 crore)^	CARE AAA; Stable [Triple A; Outlook: Stable]	Reaffirmed
Subordinated debt	3,455 (Rupees Three Thousand Four Hundred and Fifty Five crore only)	CARE AAA; Stable [Triple A; Outlook: Stable]	Reaffirmed
Issuer Rating*	-	CARE AAA (Is); Stable [Triple A (Issuer Rating); Outlook: Stable]	Reaffirmed

Details of instruments/facilities in Annexure-1

^ The amount is reduced on account of redemption Rs.529 crore of CARE rated NCDs on upon maturity.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the long term debt instruments of Bajaj Finance Limited (BFL) continue to factor in the strong parentage and strategic importance of BFL to the Bajaj group and expected support from the parent group, experienced management team, stable profitability parameters, healthy asset quality, comfortable liquidity profile, diversified resource profile, comfortable capitalization levels and good analytics and 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, however, the company has been able to maintain healthy asset quality parameters over time.

Rating Sensitivities

Negative Factors:

- Dilution in strategic importance for the group.
- Deterioration in the asset quality with consolidated Net NPA to Net Worth ratio above 15% on sustained basis.
- Decline in profitability with ROTA declining below 1.5% on sustained basis.
- Substantial increase in the Gearing ratio.

Detailed description of the key rating drivers

Strong parentage & strategic importance to parent group:

Bajaj Finance Limited (BFL) is a subsidiary of Bajaj Finserv Limited which holds a 52.82% stake (as on December 31, 2019) in BFL. The Promoter holding company and Promoter group holds 56.15% stake in BFL and 58.35% stake in Bajaj Finserv Ltd and 49.30% in Bajaj Auto Ltd. as on December 31, 2019. BFL is strategically important entity for the Bajaj group being the group's only lending entity (apart from its wholly owned subsidiary Bajaj Housing Finance Limited (BHFL) which is the HFC of the group) and has a profitable track record with shared brand name and expectation of group support. Further BFL also financed over 40% of Bajaj motorcycles and around 36% of Bajaj three-wheelers in FY2019 and so is instrumental in execution of business strategies of BAL. Considering the importance of the company for the group, BFL is expected to receive operational, funding and managerial support from the group and is a key rating sensitivity.

Experienced management team:

The Board of Directors BFL is headed by Mr. Rahul Bajaj (Chairman) while Mr. Sanjeev Bajaj is the Vice-Chairman. The operations of the company are headed by Mr. Rajeev Jain who is the Managing Director (MD) of the company. BFL's various business segments are headed by personnel with relevant experience in their respective fields. The operations of BHFL are headed by Mr. Atul Jain (Managing Director and Chief Executive Officer; MD & CEO).

Strong profitability parameters:

During FY11 to FY19, on a consolidated basis, the AUM has grown at a healthy CAGR of around 35% to Rs.1,15,888 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 had return on net worth (RONW) in excess of 20%.

The company's strong NIM is driven by higher yielding products in the portfolio such as consumer durable financing, personal loans, business loans and two and three wheeler financing wherein the yields along with lower cost of funds.

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

The portfolio yield has been in the range of 16% to 18% while the borrowing cost has been in the range of 7% to 9%. Further, the company has maintained good asset quality resulting in low credit costs in the range of 1.35 to 1.5% of total assets.

During FY19 (refers to period from April 01 to March 31), BFL on a consolidated basis reported profit after tax (PAT) of Rs.3,995 crore (P.Y.: Rs.2,496 crore) on a total income of Rs.18,502 crore (P.Y.: Rs.12,757 crore) in FY19. The company's ROTA for FY19 was 3.85%.

During 9MFY20 (refers to period from April 01 to December 31), BFL reported PAT of Rs.4,316 crore (P.Y.: Rs.2,829 crore) on total income of Rs.19,157 crore (P.Y.: Rs.13,203 crore).

Healthy asset quality:

BFL has maintained stable asset quality for the past few years despite majority of its loan portfolio being unsecured in nature. The company reported Gross NPA ratio [based on 90+ dpd] of 1.54% [P.Y.: 1.41%] and Net NPA ratio of 0.63% [P.Y.: 0.43%] as on March 31, 2019. The company has adequately provided for the non-performing assets with provision coverage of 60% and Net NPA to tangible net worth ratio stood at 3.76% (P.Y.: 1.85%) as on March 31, 2019. The Net NPA to tangible net-worth stood at 3.76% as on March 31, 2019. BFL's underwriting norms and risk analytical framework has ensured that it is able to maintain asset quality even in case of riskier exposures like consumer durable financing, unsecured business loans and personal loans. BFL's provisioning policy is conservative and more stringent than the RBI mandated regulations. As on December 31, 2019, the Gross NPA ratio marginally increased to 1.61% and Net NPA ratio stood at 0.70% along with net NPA to tangible net-worth of 3.22% as on December 31, 2019.

Comfortable capitalization levels:

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. The company's tangible net worth stood at Rs.18,860 crore (consolidated) as on March 31, 2019 (P.Y.: Rs.14,956 crore). Correspondingly, the overall capital adequacy ratio (CAR) was at comfortable levels of 20.66% with a Tier I CAR of 16.27% at the end of March 31, 2019 as against CAR of 21.40% with Tier I CAR of 16.80% as on March 31, 2018.

BFL raised equity capital of Rs.8,500 crore during 9MFY20 through a qualified institutional placement (QIP) which helped the company report total CAR stood at 26.87% with Tier I capital at 23.16%. The overall gearing levels stood at 3.85 times as on December 31, 2019 (March 31, 2019: 5.46 times).

Diversified resource profile:

As on March 31, 2019, BFL's funding profile is well diversified with bank funding accounting for 37% of total borrowings, non-convertible debentures (including subordinated debt) [40%], commercial papers [9%], fixed deposits [13%] and other borrowings (includes inter-corporate deposits and collateralized borrowings and lending obligations) [1%]. Further being part of the Bajaj group helps BFL in mobilizing funds at cost effective rates. Further in 9MFY20 BFL raised \$575 MM (equivalent to Rs.4,083 crore) under the ECB facility agreement with various banks. For December 31, 2019 the consolidated borrowings stood at Rs.1,22,050 crore with a ratio of 38%: 42%: 17%: 3% between Banks, Money Markets, Deposits, ECB.

Good risk management system:

BFL is highly focused 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. The statistical models capture the consumer metric and using predictive analytics establish the possibility of a default. The models are reviewed on a monthly basis by the top management and are updated regularly to capture emerging trends in customer behaviour and delinquency levels.

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, professional loans which constituted 61% (P.Y.: 53%) of the loan portfolio as on March 31, 2019. 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.

Liquidity Profile: Strong

BFL has a comfortable liquidity profile as on December 31, 2019 with positive cumulative mismatches in all the time brackets due to well matched tenure of assets and liabilities. The average maturity of assets is around 20-21 months whereas the average maturity for liability would be around 3-4 years. The company has a policy of keeping certain proportion of its 2 months average borrowing as liquidity buffers in the form of investment in liquid mutual funds, government securities and certificate of deposits. As on December 31, 2019, the company has Rs.8,426 crore of liquid

investments along with cash and bank balances (up to 1 year maturity) along with undrawn bank lines of Rs.10,005 crore which provide further comfort to liquidity profile.

Analytical approach:

CARE has analyzed BFL's credit profile by considering the consolidated financial statements of BFL owing to financial and operational linkages with its housing finance subsidiary BHFL and recently acquired company from BHFL, Bajaj Financial Securities Limited (BFSL). CARE has also taken into account BFL's parentage and strategic importance of it to the Bajaj Group.

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 52.82% stake (as on December 31, 2019) in the company and is the holding company of the financial services business of the Bajaj Group. The promoter holding in the company is around 56.15% as on December 31, 2019. BFL is one of the leading NBFC in India having a diversified loan book on a consolidated basis with exposure in various segments like consumer finance [39%], SME finance [13%], commercial finance [9%], mortgage finance [30%] and rural finance [9%] as of December 31, 2019. At the end of December 31, 2019, BFL on a consolidated basis had assets under management [AUM] of Rs.1,45,092 crore. BFL has 986 urban branches and 1,193 rural locations (including franchisees) with over 1,07,100 point of sale at the end of December 31, 2019.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	12,744.41	18,485.09
PAT	2,496.37	3,994.99
Interest coverage (times)	1.83	1.93
Total Assets	83,906.71	1,23,395.14
Net NPA (%)	0.43	0.63
ROTA (%)	NA	3.85

A - Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN No.	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs.cr.)	Rating Assigned with Rating Outlook
Non-convertible debentures	INE296A07LG7	04-Jul-16	8.65%	03-Jul-26	47.5	CARE AAA; Stable
Non-convertible debentures	INE296A07LL7	14-Jul-16	8.55%	14-Jul-21	15	CARE AAA; Stable
Non-convertible debentures	INE296A07LP8	28-Jul-16	8.47%	28-Jul-21	100	CARE AAA; Stable
Non-convertible debentures	INE296A07LQ6	02-Aug-16	8.40%	02-Aug-21	25	CARE AAA; Stable
Non-convertible debentures	INE296A07LR4	10-Aug-16	8.36%	10-Aug-21	160	CARE AAA; Stable
Non-convertible debentures	INE296A07LS2	11-Aug-16	8.36%	11-Aug-21	25	CARE AAA; Stable
Non-convertible debentures	INE296A07MG5	08-Sep-16	8.04%	10-May-21	35	CARE AAA; Stable
Non-convertible debentures	INE296A07MH3	08-Sep-16	8.00%	08-Sep-20	50	CARE AAA; Stable
Non-convertible debentures	INE296A07MI1	08-Sep-16	7.99%	25-May-20	50	CARE AAA; Stable
Non-convertible debentures	INE296A07MJ9	8-Sep-16	8.00%	11-Sep-19	140	CARE AAA; Stable
Non-convertible debentures	INE296A07MO9	23-Sep-16	8.05%	23-Sep-26	10	CARE AAA; Stable

Non-convertible debentures	INE296A07NK5	07-Dec-16	7.50%	07-Dec-21	30	CARE AAA; Stable
Non-convertible debentures	INE296A07NP4	13-Jan-17	7.70%	13-Jan-22	77	CARE AAA; Stable
Non-convertible debentures	INE296A07OX6	27-Mar-17	7.85%	28-Mar-22	37	CARE AAA; Stable
Subordinate Debt	INE296A08771	15-Jul-16	8.85%	15-Jul-26	490	CARE AAA; Stable
Subordinate Debt	INE296A08789	21-Jul-16	8.85%	21-Jul-26	480	CARE AAA; Stable
Subordinate Debt	INE296A08797	16-Aug-16	8.75%	14-Aug-26	485	CARE AAA; Stable
Subordinate Debt	INE296A08805	29-Sep-16	8.45%	29-Sep-26	500	CARE AAA; Stable
Subordinate Debt	INE296A08821	02-Dec-16	8.05%	02-Dec-26	105	CARE AAA; Stable
Subordinate Debt	INE296A08847	22-Jun-17	8.15%	22-Jun-27	600	CARE AAA; 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AAA (Is); Stable	1)CARE AAA (Is); Stable (25-Mar-20)	1)CARE AAA (Is); Stable (28-Dec-18)	1)CARE AAA (Is); Stable (10-Jul-17)	1)CARE AAA (Is); Stable (26-Dec-16) 2)CARE AAA (Is) (09-Jun-16)
2.	Debentures-Non Convertible Debentures	LT	1016.00	CARE AAA; Stable	1)CARE AAA; Stable (25-Mar-20)	1)CARE AAA; Stable (28-Dec-18) 2)CARE AAA; Stable (10-Oct-18)	1)CARE AAA; Stable (10-Jul-17) 2)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	3455.00	CARE AAA; Stable	1)CARE AAA; Stable (25-Mar-20)	1)CARE AAA; Stable (28-Dec-18) 2)CARE AAA; Stable (10-Oct-18)	1)CARE AAA; Stable (10-Jul-17) 2)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)

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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