Bajaj Finance Limited

October 10, 2018

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
Total	**5,000 (Rs. Five Thousand Crore Only)**		

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 the Bajaj group, experienced management team, good profitability parameters, comfortable asset quality, comfortable liquidity profile, diversified resource profile, comfortable capitalization levels with capital infusion in FY18 (refers to the period of April 01 to March 31) 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

Strong parentage & strategic importance to parent group: BFL is a subsidiary of Bajaj Finserv Limited (Bajaj Finserv) which holds a 54.99% stake (as on June 30, 2018) 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 Limited (BAL) as on June 30, 2018. BFL is a strategically important entity for the Bajaj group being the group's only lending entity having a stable profitable track record. Further, during FY18, BFL entered into housing finance company through a 100% subsidiary, 'Bajaj Housing Finance Limited (BHFL)' registered with National Housing Bank (NHB). The company will focus on housing finance and mortgage business.

Experienced management team: The Board of Directors of BFL is headed by Mr. Rahul Bajaj (Chairman) and Mr. Sanjiv Bajaj (Vice-Chairman). The operations of the company are headed by Mr. Rajeev Jain, Managing Director who has been associated with the company since a decade. The various business segments of the company are headed by personnel with relevant experience in their respective fields.

Good profitability: During FY14 to FY18, on a standalone basis, the AUM has grown at a healthy CAGR of around 35% to Rs. 81,330 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 also maintained good asset quality with provisioning cost as a proportion of assets in the range of 1.3-1.5%. BFL earned a profit after tax (PAT) of Rs.2,647 crore (P.Y.: Rs.1,837 crore) on a total income of Rs.13,329 crore (P.Y.: Rs.9,989 crore) in FY18. Further, with adoption of Ind AS from Q1FY19 (refers to period from April 01 to June 30), BFL reported a PAT of Rs.834 crore (unaudited) on a total income of Rs.3,796 crore (unaudited).

Comfortable asset quality: BFL has maintained stable asset quality for the past few years with Gross and Net NPA of 1.48% (based on 90+ dpd) [P.Y.: 1.68% (based on 120+ dpd)] and 0.38% (based on 90+ dpd) [P.Y.: 0.44% (based on 120+ dpd)] as on March 31, 2018. The company has adequately provided for the non-performing assets with provision coverage of 75% as on March 31, 2018. The Net NPA to tangible net-worth stood at 1.85% as on March 31, 2018.

Comfortable liquidity profile: BFL has a comfortable liquidity profile with positive cumulative mismatches in all the time brackets due to well matched tenure of assets and liabilities as on March 31, 2018. 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 capitalization levels: BFL has been maintaining comfortable capital adequacy despite the strong growth in business. During FY18, the company raised equity capital of Rs.4,500 crore through qualified institutional placement (QIP) route, leading to increase of 75% in its tangible net-worth y-o-y and stood at Rs.16,011 crore as on March 31, 2018.

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

Correspondingly, the overall capital adequacy ratio (CAR) was at comfortable levels of 24.71% with a Tier I CAR of 19.68% at the end of March 31, 2018 as against CAR of 20.30% with Tier I CAR of 14.56% as on March 31, 2017.

Diversified resource profile: As on March 31, 2018, BFL's funding profile is well diversified with bank funding accounting for 31% of total borrowings, non-convertible debentures (including subordinated debt) [49%], commercial papers [6%], fixed deposits [9%] and other borrowings (includes inter-corporate deposits and collateralized borrowings and lending obligations) [5%]. 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 around 53% of the loan portfolio as on March 31, 2018. 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.

Analytical approach: BFL has been assessed on a standalone basis; however, its linkages with the Bajaj Group have also been factored in the assessment

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 54.99% stake (as on June 30, 2018) 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 June 30, 2018. 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 [47%], SME finance [31%], commercial finance [15%] and rural finance [7%]. At the end of June 30, 2018, BFL on a consolidated basis had assets under management [AUM] of Rs.93,314 crore. BFL had 793 urban branches and 693 rural locations (including franchisees) with over 69,600 active distribution network at the end of June 30, 2018.

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

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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

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 (10-Jul-17)	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 (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	3,455.00	CARE AAA: Stable	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)	-	-

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