Bajaj Finance Limited

December 28, 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
Issuer Rating*	-	**CARE AAA (Is); Stable [Triple A (Issuer Rating); Outlook: Stable]**	Reaffirmed
Total	**5,000 (Rs. Five Thousand Crore Only)**		

Details of instruments/facilities in Annexure-1

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

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, experienced management team, good profitability parameters, healthy 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 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 over time. 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 September 30, 2018) in BFL and has strong synergies with the parent company. The ultimate holding company of the Bajaj group is Bajaj Holdings & investments Limited (BHIL) which holds 39.16% stake in Bajaj Finserv and 31.54% stake in Bajaj Auto Limited (BAL) (which is one of India's largest auto manufacturing companies) as on September 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 and gets strong synergies with the Bajaj group. BFL finances around one third of sales 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.

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.

Strong profitability parameters: 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%. Apart from higher yielding products in the portfolio such as consumer durable financing, personal loans, business loans and two and three wheeler financing, good margins were also aided by lower cost of funds. The portfolio yield has been in the range of 17-18% on a weighted average basis with the cost of borrowing at 9-10% on a weighted average basis. Due to all these factors, return on net worth (RONW) has consistently been above 20%. The company has also maintained good asset quality with credit costs 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 H1FY19 (refers to period from April 01 to September 30), BFL reported a PAT of Rs.1,754 crore (unaudited) on a total income of Rs.7,990 crore (unaudited).

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

Healthy asset quality: BFL has maintained stable asset quality for the past few years despite majority of its loan portfolio being unsecured in nature. 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. 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. With the adoption of the ECL model, the Gross NPA and Net NPA stood at 1.67% and 0.60% along with net NPA to tangible net-worth of 3.11% as on September 30, 2018.

Comfortable liquidity profile: BFL has a comfortable liquidity profile as on September 30, 2018 with positive cumulative mismatches in all the time brackets due to well matched tenure of assets and liabilities. The weighted average tenure of the borrowings is 2.0 – 2.5 years and the weighted average tenure of the loan portfolio [majorly consumer durable loan portfolio] (net of prepayments) ranges from 18 to 20 months. The company has a policy of keeping certain proportion of its last 2 months average borrowing as liquidity buffers in the form of investment in liquid mutual funds, government securities and certificate of deposits. As on November 30, 2018, the company had Rs.5,556 of liquid investments (including cash and bank balances) along with undrawn bank lines of Rs.4,095 crore which provide further comfort to 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. 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. The company reported CAR of 22.13% (Tier I CAR: 17.17%) as on September 30, 2018 with overall gearing levels stood at 4.46 times (March 31, 2018: 3.90 times).

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: 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.

Liquidity Profile

BFL has a comfortable liquidity profile with positive cumulative mismatches in almost all the time brackets due to well matched tenure of assets and liabilities. BFL has CP outstanding of Rs.6,499 crore which constituting 9% of the total borrowings as on September 30, 2018. The company has a policy of keeping additional liquidity buffers in the range of 5-7% of average of last 2 month of borrowings in the form of liquid investments for of deposits. As on November 30, 2018, the company had Rs.5,556 of liquid investments (including cash and bank balances) along with undrawn bank lines of Rs.4,095 crore which provide further comfort to liquidity profile.

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. On October 10, 2018, BFL has acquired 100% shares of Bajaj Financial Securities Limited (BFSL) from its wholly owned subsidiary BHFL on account to support its Loan against Shares (LAS) business.

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.*

Analyst Contact:
Name: Aditya Acharekar
Tel No.: 022-6754 3528
Mobile: + 91-9819013971
Email: aditya.acharekar@careratings.com

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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
Issuer Rating	-	-	-	-	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
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-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	3,455.00	CARE AAA: Stable	1) 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)	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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