

Bajaj Finance Limited (Revised)

January 05, 2023

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Subordinated debt	3,455.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Non-convertible debentures	272.00 (Reduced from 386.00) [^]	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total long-term instruments	3,727.00 (₹ Three thousand seven hundred twenty-seven crore only)		
Issuer rating @	-	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed

Details of instruments/facilities in Annexure-1.

@ Subject to overall gearing not exceeding 7x.

[^] The amount is reduced on account of redemption ₹114 crore of CARE Ratings Limited-rated NCDs upon maturity.

Detailed rationale and key rating drivers

The rating assigned to the long-term debt instruments of Bajaj Finance Limited (BFL) continues to factor in BFL's track record and market position as one of the largest retail-focused non-banking finance companies (NBFCs) in the country with assets under management (AUM) of ₹218,366 crore (consolidated) as on September 30, 2022. The rating factors in its established PAN-India franchise with a large customer base, healthy capitalisation, diversified resource profile, improvement in asset quality parameters post COVID-19 pandemic and stable profitability metrics. The rating also factors in the strong parentage and strategic importance of BFL to the Bajaj Group, being the flagship lending company of the group and expected support from the parent group.

The rating also considers the exposure of BFL to relatively riskier segments, such as personal loans, unsecured business loans, two and three-wheeler financing, consumer durable financing, etc, and growing proportion of its relatively under-seasoned mortgage segment in overall AUM. However, the presence of robust risk management systems mitigates the risk of such exposure to some extent, which has enabled the company to maintain good asset quality over the years. BFL also continues to face increasing competition in some of the product segments, such as housing or mortgage loans and personal loans from large-sized private as well as public sector banks and from small finance banks and smaller NBFCs in the rural geographies.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Not applicable.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Dilution in strategic importance for the group.
- Deterioration in the asset quality with consolidated net non-performing assets (NNPA) to net worth ratio above 15% on a sustained basis.
- Decline in the profitability with return on total assets (ROTA) declining below 1.5% on a sustained basis.
- Substantial increase in the leverage.

Detailed description of the key rating drivers

Key rating strengths

Established market presence as one of the largest retail focused NBFCs with product and geographic diversification: BFL is one of the leading NBFCs in India having AUM of ₹218,366 crore as on September 30, 2022. It has a diverse product offering classified into various segments, such as consumer finance (32% of the AUM); SME finance (13% of the AUM); commercial finance, including loan against shares – (LAS; 10% of the AUM); rural finance (10% of the AUM) and mortgage finance (33% of the AUM) which includes LAP; home loans to self-employed and salaried individuals; and developer loan, which is largely done under its 100% subsidiary, Bajaj Housing Finance Ltd (BHFL). The mortgage business has witnessed significant growth since BHFL started its operations in FY18 (refers to the period April 1 to March 31). However, its proportion in overall AUM has not altered very significantly (March 2021: 29%). Over 80% of AUM of BFL is retail, which brings stability to the AUM and reduces borrower concentration. Over the past five to seven years, the company has developed a strong franchise and geographical reach with presence in 3,685 locations and over 143,300 active distribution points of sale with a customer

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

base of 62.9 million customers as on September 30, 2022 (September 30, 2021: Location - 3,329, distribution points over 119,900 and 52.8 million customers). BFL continues to expand its customer base and geographical presence throughout the country, thus reducing the geographic concentration as well increasing its ability to cross sell. As a part of its omnipresence strategy, BFL is also investing in technology to increase its digital footprint by adding features to its web and app platform. BFL also has tie-ups to distribute life insurance, general insurance, health insurance and co-branded credit cards from which it earns fee income.

Strong parentage and strategic importance to parent group: BFL enjoys the support of a strong promoter (Bajaj) group, where Bajaj Finserv Limited, the flagship holding company of the group for financial services businesses, holds around 52.49% stake in BFL; and Bajaj Holdings Investment Ltd. (BHIL) being the ultimate parent company holds around 39.12% stake in Bajaj Finserv Limited as on September 30, 2022. BFL is the largest consumer lending arm of the group and financier of total domestic sales of two wheelers (around 37%) and three wheelers (around 44%) of BAL as on March 31, 2022. BFL shares the corporate identity of the group by way of shared brand name 'Bajaj', indicating the strategic importance of BFL to the Bajaj Group. Furthermore, BFL also receives a strong operational and managerial support from the group. Although, BFL has a strong credit profile, CARE Ratings Limited (CARE Ratings) factors in the expected support from the group if needed. The Board of Directors of BFL is headed by Sanjiv Bajaj, who is the Chairman of the company. The promoter directors are common across the Bajaj group including BFL.

Strong capitalisation and liability franchisee: The company has maintained comfortable capitalisation levels over the years, while it has significantly scaled up its business. BFL has raised equity capital by way of qualified institutional placement (QIP) thrice in the past 10 years, the latest QIP being in November 2019 for ₹8,500 crore demonstrating strong capital raising ability. The capital raise has helped the company maintain comfortable capital adequacy while absorbing incremental provisioning on account of COVID-19-induced stress over the past two years. BFL reported capital adequacy ratio (CAR) of 25.13% (Tier-I CAR: 23.14%) as on September 30, 2022 (March 31, 2022: CAR – 27.22% and Tier-I CAR – 24.75%). As per the internal policy, BFL keeps itself adequately capitalised to maintain a leverage threshold of 7.0x. However, the overall gearing stood at 3.94x as on September 30, 2022 (March 31, 2022: 3.91x). Over the years, it has developed relationships with most of the large banks for borrowings and continues to actively raise funds from capital market and deposits at competitive rates, thus keeping its cost of funds low. BFL has a treasury department, which manages its funding profile (duration and sources both) depending upon the interest rate scenario to optimize the cost of borrowings. As on September 30, 2022, borrowing mix was well diversified with money markets (constituting 44% of the total borrowings), borrowing from banks (31% of total borrowings), deposits (22%) and external commercial borrowings (ECB; 3%).

Strong recovery in earnings profile post COVID-19: BFL has demonstrated strong earning profile consistently from FY16 (refers to the period from April 01 to March 31) onwards with net interest margin (NIM) ranging over 9%, helped by yields on portfolio between 16% and 17.5% and cost of funds between 7.5% and 9%. BFL's asset quality was impacted during FY21 as under COVID-19, certain segments of its retail business were under stress, which resulted in high NPA and credit cost. BFL's AUM grew the slowest at 4% for FY21 and its NIM was lower on account of negative carry due to excess liquidity maintained by BFL during COVID-19, as there were lower disbursements and partly on account of interest reversals on delinquent portfolios. During FY22 and H1FY23, NIM returned to normalcy as BFL undertook significant AUM growth (29%-30%) combined with reduction of the excess liquidity. Low interest rates up to Q3FY22 also helped reduce its cost of funds. The operating expenses increased significantly during FY22, and the company continued to invest in geographical expansion and increase in employees and partly due to low base effect as operations were impacted for FY21. The credit cost peaked at 3.58% of the average total assets for FY21, which reduced to 2.52% with stabilisation in the asset quality in FY22 and continued to remain low in H1FY23 at 1.34%, as the asset quality improved. BFL's ROTA, which ranged between 3.3% and 3.9%, fell to 2.63% during FY21 on account of lower NIM and higher credit cost was back to normal during FY22 and H1FY23 at 3.69% and 4.83%, respectively. CARE Ratings expects BFL's profitability to be healthy over medium term.

Key rating weaknesses

Presence in unsecured and relatively riskier segments with risk partially mitigated by robust risk management system: Majority of BFLs retail loans constitutes consumer durable finance, two and three-wheeler loans, personal loans and unsecured business loans (SME), which are majorly unsecured in nature, and constitutes approximately 56% of the AUM as on September 30, 2022 (55% - March 31, 2022). Furthermore, the mortgage loan book, which constitutes approximately 33% of the AUM is largely under-seasoned. BFL's asset quality was significantly impacted during COVID-19 (FY21 and Q1FY22) with GNPA ratio and net NPA (NNPA) ratio peaking at 2.96% and 1.46% as on June 30, 2021. The asset quality has since then improved every quarter due to continued write-offs and improvement in the collections. BFL's GNPA and NNPA stood at 1.17% and 0.44% as on September 30, 2022 (March 31, 2021: 1.79% and 0.75%, March 31, 2022: 1.60% and 0.68%). Provision coverage ratio and NNPA to net worth stood at 62% and 2.05%, respectively, as on as on September 30, 2022. BFL continues keep high provisions (including management overlay) for its stressed assets. BFL maintained management overlay provision of ₹1,000 crore in addition to NPA provisions as on September 30, 2022, to insulate itself from any further asset quality deteriorations.

BFL has a high focus on the risk management infrastructure to manage delinquency levels and to target the right customer for its various products. BFL has a designated risk and analytics department, which 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 use predictive analytics to establish the possibility of a default. The models are reviewed monthly by the top management and are updated regularly to capture emerging trends in the customer behaviour and delinquency levels. Historically, BFL has showcased its ability by maintaining healthy collections and asset quality despite a robust growth in the AUM. However, on account of the COVID-19 pandemic and the slowdown in the economy, the unsecured nature of the asset class stands more riskier than the secured asset class.

Liquidity: Strong

BFL and BHFL has a comfortable liquidity profile with positive cumulative mismatches in all the time buckets up to one year due to well-matched tenure of assets and liabilities as per behaviouralised (based on the behaviour of loan repayments instead on contractual repayments) standalone asset liability maturity (ALM) statement on September 30, 2022. BFL and BHFL maintained LCR of 238% and 93%, respectively, as against regulatory requirement of 60% as on September 30, 2022. On a BFL standalone, comfort can also be drawn from undrawn bank lines of around ₹6,300 crore as on September 30, 2022. The company maintained a consolidated liquidity buffer of ₹9,288 crore as on September 30, 2022.

Analytical approach

CARE Ratings has analysed BFL's credit profile by considering the consolidated financial statements of BFL owing to the financial and operational linkages with its housing finance subsidiary, Bajaj Housing Finance Limited (BHFL), and Bajaj Financial Securities Limited (BFSL). CARE Ratings has also considered BFL's parentage and its strategic importance to the Bajaj group.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios - Financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Non-Banking Financial Companies](#)

[Policy on Withdrawal of Ratings](#)

[Issuer Rating](#)

About the company

Bajaj Finance Limited (BFL) is a systemically important deposit taking non-banking finance company (NBFC) of the Bajaj group and is a subsidiary of Bajaj Finserv Limited, which is the holding company of the Bajaj Group for its financial services business. Bajaj Finserv held 52.49% stake in BFL as on September 30, 2022.

BFL is one of the leading NBFCs in India having a diversified loan book with exposure in various segments like Consumer finance (32% of the AUM), which includes Consumer durable loans, Lifestyle Product Finance, digital finance, personal loans cross sell, two and three-wheeler loans, salaried home loans and others; SME finance (13% of the AUM), which includes business loans, professional loans and others; commercial finance (10% of the AUM), which includes loan against securities (LAS), infrastructure finance, vendor finance, financial institution lending, corporate finance loans, lite engineering and others; rural finance (10% of the AUM), which includes all the products offered in rural areas mentioned above and mortgage finance (33% of the AUM), which includes home loans – self-employed and salaried, loan against property (LAP), and developer loan as on September 30, 2022. BFL has two wholly-owned subsidiaries, viz., Bajaj Housing Finance Limited (BHFL) and Bajaj Financial Securities Ltd (BFSL).

BHFL is registered with National Housing Bank (NHB) as a Housing Finance Company (HFC), regulated by Reserve Bank of India (RBI) and classified as "Upper Layer NBFC" under the recent Scale Based Regulations issued by RBI and became fully operational from January 2018. The HFC reported AUM of ₹62,931 crore (constituting 28.8% of total AUM) as on September 30, 2022, comprising salaried home loans, loan against property, developer financing, lease rental discounting, etc.

BFSL is registered with the SEBI as a stock broker and depository participant. BFSL started its business operations from August 2019 with a strategy to ring fence loan against securities (LAS) customers of BFL by providing them a full suite of investment products and services. It offers demat, broking, Mutual Funds, IPOs, Distribution of PMS margin trade financing and financing for offer for sale to retail and HNI clients. It offers spread financing to its customers through BFL.

BFL Consolidated

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	26,668	31,632	19,251
PAT	5,992	9,504	5,377
Total Assets	170,207	211,100	234,227
Net NPA (%)	0.75	0.68	0.44
ROTA (%)	2.64	3.69	4.83

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA:

Not applicable

Any other information:

Not applicable

Rating history for the last three years: Please refer Annexure-2**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3**Complexity level of various instruments rated for this company:** Annexure-4**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-convertible debentures	INE296A07LG7	04-Jul-16	8.65%	03-Jul-26	47.5	CARE AAA; Stable
Non-convertible debentures	INE296A07MO9	23-Sep-16	8.05%	23-Sep-26	10.0	CARE AAA; Stable
Non-convertible debentures	INE296A07NP4	13-Jan-17	7.70%	13-Jan-22	-	Withdrawn
Non-convertible debentures	INE296A07OX6	27-Mar-17	7.85%	28-Mar-22	-	Withdrawn
Non-convertible debentures (Proposed)	-	-	-	-	214.5	CARE AAA; Stable
Subordinate debt	INE296A08771	15-Jul-16	8.85%	15-Jul-26	490.0	CARE AAA; Stable
Subordinate debt	INE296A08789	21-Jul-16	8.85%	21-Jul-26	480.0	CARE AAA; Stable
Subordinate debt	INE296A08797	16-Aug-16	8.75%	14-Aug-26	485.0	CARE AAA; Stable
Subordinate debt	INE296A08805	29-Sep-16	8.45%	29-Sep-26	500.0	CARE AAA; Stable
Subordinate debt	INE296A08821	02-Dec-16	8.05%	02-Dec-26	105.0	CARE AAA; Stable
Subordinate debt	INE296A08847	22-Jun-17	8.15%	22-Jun-27	600.0	CARE AAA; Stable
Subordinate debt (Proposed)	-	-	-	-	795.0	CARE AAA; Stable
Issuer Ratings	-	-	-	-	-	CARE AAA; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Issuer rating-Issuer ratings	Issuer rat	0.00	CARE AAA; Stable	1)CARE AAA; Stable (26-Dec-22)	1)CARE AAA (Is); Stable (06-Jan-22)	1)CARE AAA (Is); Stable (26-Mar-21) 2)CARE AAA (Is); Stable (01-Apr-20)	-
2	Debentures-Non-convertible debentures	LT	272.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Jan-22)	1)CARE AAA; Stable (26-Mar-21) 2)CARE AAA; Stable	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
							(01-Apr-20)	
3	Debt-Subordinate debt	LT	3455.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Jan-22)	1)CARE AAA; Stable (26-Mar-21) 2)CARE AAA; Stable (01-Apr-20)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities – Not available

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Non-convertible debentures	Simple
2	Debt-Subordinate debt	Complex

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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