

June 07, 2022^(Revised)

Bajaj Finance Ltd.: Ratings reaffirmed; Migration of the rating on the medium-term rating scale to the long-term rating scale

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	103.00	103.00	[ICRA]AAA (Stable); reaffirmed
Subordinated debt	999.60	999.60	[ICRA]AAA (Stable); reaffirmed
Fixed deposit programme	NA	NA	[ICRA]AAA (Stable); reaffirmed and migrated from MAAA (Stable)
Commercial paper programme	35,000.00	20,000.00	[ICRA]A1+; reaffirmed
Total	36,102.60	21,102.60	

*Instrument details are provided in Annexure-1

Rationale

The ratings factor in Bajaj Finance Ltd.'s (BFL) long track record of operations and established presence in the Indian financial market as one of the largest retail-focused non-bank financiers. Over the last decade, the company has achieved a significant scale with consolidated assets under management (AUM) of Rs. 1,97,452 crore as on March 31, 2022, distributed across different geographies and asset classes, lending granularity to its portfolio with the book being predominantly retail. The ratings also factor in BFL's healthy earnings profile (3-year average return on average managed assets of 3.1%¹) on account of consistent accretion and prudent operating expense management with the use of automation. BFL has built robust data analytics capabilities facilitating early warning signals, thereby enabling the effective and continuous monitoring of the portfolio.

ICRA draws comfort from BFL's healthy capitalisation profile with a capital-to-risk weighted assets ratio (CRAR) of 26.2% as on March 31, 2022. Further, the company has continued to maintain a superior liquidity profile with well-matched asset-liability maturities supported by high on-balance sheet liquidity and unutilised lines. ICRA also notes that BFL maintains a low share of funding from short-term sources. BFL is of significant strategic importance to the Bajaj Group, given its position as the lending vertical of Bajaj Finserv Limited and the captive financier for the Group's flagship company, Bajaj Auto Limited. ICRA expects the company to continue to benefit from the financial flexibility derived from such association and relevance.

However, ICRA takes note of the moderate to high risk profile of the portfolio as unsecured consumer finance, personal loan finance and small and medium enterprise (SME) finance accounted for 50% of the overall portfolio as on March 31, 2022. BFL's prudent risk management on account of tightened underwriting and its focus on existing customers mitigate the risk on the asset quality to some extent. Given the company's high growth plans, its ability to keep its asset quality under control will remain a monitorable. Further, its ability to keep a diversified funding mix and maintain a competitive cost of funds while accelerating its growth over the medium term remains a monitorable.

The Stable outlook on the [ICRA]AAA rating reflects ICRA's expectation that BFL will continue to benefit from its long track record of operations, established branding, scale and granularity of its portfolio, and its commitment to robust risk management and prudent financial policies.

¹ FY2020 to FY2022

In compliance with the circular [SEBI/HO/MIRSD/MIRSD_CRADT/P/CIR/2021/594] issued by the Securities and Exchange Board of India (SEBI) on July 16, 2021 and the subsequent circular (SEBI/HO/MIRSD/MIRSD_CRADT /P/CIR/2022/43) of April 1, 2022, for standardising the rating scales used by credit rating agencies, ICRA has discontinued the medium-term rating scale which was being used to assign ratings to the fixed deposit programmes of entities.

Accordingly, ICRA has migrated the rating currently outstanding for the fixed deposits programme of BFL from the medium-term rating scale to the long-term rating scale. The medium-term rating scale of ICRA was a 14-point scale, while the long-term rating scale is a 20-point one. The migration of the rating has resulted in a change in the rating symbol; however, this is to be construed only as a recalibration of the rating from one scale to another and not as a reflection of a change in the credit risk of the fixed deposit programme.

Key rating drivers and their description

Credit strengths

Strong market position and significant track record in Indian retail finance operations; strategically important to Bajaj Group

– BFL has a strong market presence in the Indian non-bank retail financing sector. The company achieved a fast-paced growth over the last decade to build a sizeable portfolio of Rs. 1,97,452 crore as on March 31, 2022 (vs. Rs. 13,107 crore as on March 31, 2012) on a consolidated basis. BFL is of significant strategic importance to the Bajaj Group, given its position as the lending vertical of Bajaj Finserv Limited and the captive financier for the Group's flagship company, Bajaj Auto Limited. ICRA expects BFL to continue enjoying financial flexibility, given its association and importance to the Bajaj Group. The company's stable and experienced senior management team has guided it through evolving technological disruptions and macroeconomic challenges. ICRA expects BFL to continue to leverage the senior management's expertise going forward as well.

High share of retail portfolio and geographical and product diversification lend stability to business in a competitive environment

– As on March 31, 2022, the company had a presence in 3,504 locations across the country and a 1.3 lakh+ point of sale distribution network, catering to a total customer franchise of 5.8 crore borrowers. Further, retail borrowers accounted for ~80% of the overall portfolio as on March 31, 2022, lending stability in terms of lower borrower-level portfolio concentration.

BFL has a reasonable presence across asset classes like mortgage, consumer durables, personal finance, commercial finance, SME finance and rural finance with numerous product offerings in each segment. In addition to other non-bank financiers, BFL's competitive landscape in most high-volume segments such as home loans and personal loans includes established private-and-public-sector banks. ICRA expects that BFL will remain diversified with a focus on its retail portfolio and granularity, going forward as well.

Healthy earnings profile supported by good margins

– With high portfolio growth over the last decade, the company managed to draw on the benefits of economies of scale while maintaining good lending margins and controlling the credit costs. Consequently, BFL generated healthy internal accruals that support the return indicators and facilitate growth as well. At the consolidated level, the net interest margin improved to 7.8% of average gross managed assets (AMA) in FY2022 from 7.2% in FY2021 due to the decline in the cost of funds, with the systemic softening of interest rates, and the increased pace of AUM growth. The company's operating expenses increased to 2.9% of AMA in FY2022 from 2.3% in FY2021, with an overall increase in employee expenses, administrative expenses and fee and commission expenses. BFL's operating expenses are expected to remain slightly elevated in FY2023 as it continues to invest in building and improving its distribution network and digital capabilities.

With the improvement in the overall asset quality indicators in FY2022 and the accelerated provisioning in FY2021, the company's credit costs (net of recoveries) declined to 1.9% of AMA (3.3% of AMA in FY2021). BFL delivered a return of 3.5% on AMA and a return of 17.4% on average net worth in FY2022 compared to 2.5% and 12.8%, respectively, in FY2021. Its long-term profitability is expected to remain healthy.

Healthy capitalisation profile driven by good internal capital generation and ability to raise capital in a timely manner – BFL was well-capitalised as on March 31, 2022 with a consolidated net worth of Rs. 43,713 crore (Rs. 36,918 crore as on March 31, 2021) and a consolidated gearing of 3.8 times (3.6 times as on March 31, 2021). In the backdrop of the improving macroeconomic environment, ICRA expects a gradual decline in the credit costs, leading to an improvement in the earnings profile. This will lead to low incremental capital requirement for the next two years, assuming the credit costs do not significantly exceed the current estimates. ICRA takes comfort from BFL's demonstrated track record of raising capital in a timely manner in order to consistently maintain a prudent gearing level.

Diversified funding profile; strong financial flexibility – BFL has a diverse funding base with non-convertible debentures (NCDs) and subordinated debt accounting for 40% of the overall consolidated borrowings, banks for 28%, deposits for 18% and other sources like external commercial borrowings, commercial paper (CP), collateralised borrowing and lending obligation (CBLO) and securitisation for the balance (14%) as on March 31, 2022. ICRA also notes that the company maintains a low share of funding from short-term sources. While BFL has sufficient headroom in terms of leveraging and tapping the deposit base as an incremental source, ICRA expects that it may need to explore other avenues of funding such as retail issuances in the capital market and direct assignment/securitisation with further improvement in its scale over the medium to long term.

Credit challenges

High share of relatively semi-secured/unsecured assets; asset quality remains a monitorable – Unsecured consumer finance, personal loan finance and SME finance accounted for 50% of the overall portfolio as on March 31, 2022. Given the high share of relatively riskier (unsecured and difficult-to-repossess semi-secured) loans and the expected high growth in its scale of operations, the company's ability to maintain its asset quality indicators over economic cycles would be a key monitorable. While ICRA notes the gradually increasing share of mortgages in BFL's portfolio, the asset quality remains largely untested for this business segment as a large share of the disbursements were made in the last few years (FY2019-FY2022). Nevertheless, BFL's use of data analytics and its continuous portfolio monitoring, based on microsegment-level system-generated early warning signals, facilitate agility in terms of the pertinent credit policy adjustments required.

Liquidity position: Superior

As per BFL's standalone liquidity statement as on March 31, 2022, there were no negative cumulative mismatches up to five years. The liquidity remained well supported by good on-balance sheet and off-balance sheet buffers. The liquidity coverage ratio of 133.8%, for the quarter ended March 31, 2022, was well above the regulatory requirement of 60.0%. As on March 31, 2022, the overlaying of Bajaj Housing Finance Limited's (BHFL; its wholly-owned subsidiary) liquidity statement over the standalone liquidity statement of BFL also yielded a comfortable profile with no negative cumulative mismatches for at least three years. The reported consolidated on-balance sheet liquidity, as on March 31, 2022, was ~Rs. 10,110 crore (~6% of total on-balance sheet borrowings).

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the ratings could arise if the consolidated return on average managed assets remains at the sub-2% level on a sustained basis (assuming no significant change vis-à-vis the current consolidated portfolio mix) and if there is a significant increase in the consolidated gearing on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Non-Banking Finance Companies Rating Approach - Consolidation
Parent/Group Support	Parent/Group Company: Bajaj Finserv Limited (ultimate parent – Bajaj Holdings & Investment Limited) No explicit support from the Group has been assumed; ICRA expects continued financial flexibility for BFL based on its association with the Bajaj Group
Consolidation/Standalone	Consolidated

About the company

Bajaj Finance Ltd. (BFL) is one of the largest retail asset financing non-banking financial companies (NBFC) with a diversified loan portfolio and a pan-India presence. While it was originally set up to provide finance for the purchase of two-wheelers and three-wheelers manufactured by Bajaj Auto Limited, it diversified into other segments over the years. Currently, it operates across seven broad categories – Consumer Lending, Mortgages, Commercial Lending, Rural Lending, SME Lending, Deposits, and Partnerships & Services.

Under Partnerships & Services, the company offers products like health insurance, extended warranty, comprehensive asset care, co-branded credit cards and wallets. BFL offers a co-branded credit card with RBL Bank and has also partnered with One Mobikwik Systems Pvt Ltd to provide both debit and credit engagement tools to its existing customers. BFL has two wholly-owned subsidiaries viz, BHFL and Bajaj Financial Securities Limited (BFSL). BHFL is registered with National Housing Bank as a housing finance company (HFC) while BFSL was incorporated to undertake the business of share broking and to function as a depository participant.

Bajaj Finserv Limited

Bajaj Finserv Limited, a core investment company (CIC) under Reserve Bank of India (RBI) regulations, is the holding company of the Bajaj Group's financial services businesses. It has investments in BFL and the insurance joint venture companies, Bajaj Allianz Life Insurance Company Limited and Bajaj Allianz General Insurance Company Limited. Bajaj Finserv held a 52.5% stake in BFL as on March 31, 2022. It also has a subsidiary, Bajaj Finserv Direct Limited (formerly Bajaj Financial Holdings Limited), which has a mandate to undertake activities on digital and online platforms to augment the business of Bajaj Finserv's subsidiaries.

Bajaj Holdings & Investment Limited

Erstwhile Bajaj Auto Limited was demerged into three entities – Bajaj Auto Limited, Bajaj Finserv and the erstwhile Bajaj Auto Limited (renamed Bajaj Holdings & Investment Limited; BHIL) with effect from April 1, 2007. As a holding and investment company, BHIL held strategic stakes of 33.4%, 39.2% and 51.0%, respectively, in Bajaj Auto Limited, Bajaj Finserv, and Maharashtra Scooters Limited as on March 31, 2021. BHIL is registered with the RBI as an NBFC – Investment and Credit Company (NBFC-ICC).

Key financial indicators (audited)

Bajaj Finance Ltd. (consolidated)	FY2020	FY2021	FY2022
Accounting as per	Ind-AS	Ind-AS	Ind-AS
Profit after tax (Rs. crore)	5,264	4,420	7,028
Reported net worth (Rs. crore)	32,328	36,918	43,713
Total managed assets (Rs. crore)	1,73,893	1,82,038	2,22,939
Return on average managed assets (%)	3.5%	2.5%	3.5%

Bajaj Finance Ltd. (consolidated)	FY2020	FY2021	FY2022
Accounting as per	Ind-AS	Ind-AS	Ind-AS
Return on average net worth (%)	20.2%	12.8%	17.4%
Gearing (gross; times)	4.0	3.6	3.8
Gross stage 3 assets (%)	1.6%	1.8%	1.6%
Net stage 3 assets (%)	0.7%	0.8%	0.7%
Solvency (Net stage 3 assets/Net worth; %)	2.9%	3.1%	3.0%
Capital to risk weighted assets ratio (CRAR; %) [^]	25.0%	28.3%	27.2%

Total managed assets = Total assets + Impairment allowance + Direct assignment

Source: Company, ICRA Research; All ratios as per ICRA's calculations

[^] CRAR is on standalone basis

Status of non-cooperation with previous CRA: Not applicable

Any other information: A member of the board of directors of ICRA Limited (ICRA) is also a member of the board of directors of BFL. The said Director is not engaged in any of the discussions, processes and committee meetings related to the rating of the instrument(s) carried out by ICRA.

Rating history for past three years

	Instrument	Type	Current Rating (FY2023)			Chronology of Rating History for the Past 3 Years				
			Amount Rated (Rs. crore)	Amount Outstanding as of Apr 30, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020
						Jun 07, 2022	Jul 15, 2021	Apr 22, 2021	Oct 01, 2020	Aug 22, 2019
1	Non-convertible Debenture	Long Term	103.00	103.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
2	Subordinated Debt	Long Term	999.60	999.60	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
3	Fixed Deposit	Long Term	-	-	[ICRA]AAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	
4	Commercial Paper	Short Term	20,000	0.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
5	Non-convertible Debenture	Long Term	-	-	-	-	-	-	[ICRA]AAA (Stable); withdrawn	
6	Non-convertible Debenture	Long Term	-	-	-	-	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	
7	Subordinated Debt	Long Term	-	-	-	-	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	
8	Non-convertible Debenture	Long Term	-	-	-	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Apr 30, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Jun 07, 2022	Jul 15, 2021	Apr 22, 2021	Oct 01, 2020	Aug 22, 2019
9	Subordinated Debt	Long Term	-	-	-	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
10	Subordinated Debt	Long Term	-	-	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debentures	Simple
Subordinated debt	Simple
Commercial paper programme	Very simple
Fixed deposit programme	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE296A07IB4	Non-convertible Debenture	Oct-13-15	8.65%	Oct-13-22	8.00	[ICRA]AAA (Stable)
INE296A07HW2	Non-convertible Debenture	Aug-20-15	8.90%	Aug-20-25	90.00	[ICRA]AAA (Stable)
INE296A07IA6	Non-convertible Debenture	Oct-13-15	8.70%	Oct-13-25	5.00	[ICRA]AAA (Stable)
INE296A08656	Subordinated Debt	Jun-14-12	10.21%	Aug-22-22	10.00	[ICRA]AAA (Stable)
INE296A08656	Subordinated Debt	Jun-15-12	10.21%	Aug-22-22	15.40	[ICRA]AAA (Stable)
INE296A08656	Subordinated Debt	Jun-20-12	10.21%	Aug-22-22	3.00	[ICRA]AAA (Stable)
INE296A08656	Subordinated Debt	Jun-28-12	10.21%	Aug-22-22	2.60	[ICRA]AAA (Stable)
INE296A08656	Subordinated Debt	Jul-25-12	10.21%	Aug-22-22	4.40	[ICRA]AAA (Stable)
INE296A08656	Subordinated Debt	Aug-02-12	10.21%	Aug-22-22	4.00	[ICRA]AAA (Stable)
INE296A08656	Subordinated Debt	Aug-17-12	10.21%	Aug-22-22	118.00	[ICRA]AAA (Stable)
INE296A08672	Subordinated Debt	Jan-28-13	9.80%	Jan-28-23	49.70	[ICRA]AAA (Stable)
INE296A08706	Subordinated Debt	Apr-26-13	9.65%	Apr-26-23	50.00	[ICRA]AAA (Stable)
INE296A08714	Subordinated Debt	Sep-19-14	10.15%	Sep-19-24	452.50	[ICRA]AAA (Stable)
INE296A08755	Subordinated Debt	Oct-21-15	8.94%	Oct-21-25	40.00	[ICRA]AAA (Stable)
INE296A08763	Subordinated Debt	Nov-09-15	8.94%	Nov-07-25	250.00	[ICRA]AAA (Stable)
NA	Commercial Paper – Yet to Be Issued	NA	NA	NA	20,000.00	[ICRA]A1+
NA	Fixed Deposit	NA	NA	NA	NA	[ICRA]AAA (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis – Not applicable

Company Name	BFL Ownership	Consolidation Approach
Bajaj Housing Finance Limited	100.00%	Full Consolidation
Bajaj Financial Securities Limited	100.00%	Full Consolidation

Corrigendum

Document dated June 07, 2022 has been corrected with revisions as detailed below:

- Link to Rating Approach – Consolidation has been added to applicable rating methodologies in analytical approach on page number 4

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