

October 18, 2023

Bajaj Finance Ltd.: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	95.00	95.00	[ICRA]AAA (Stable); reaffirmed
Subordinated debt	742.50	742.50	[ICRA]AAA (Stable); reaffirmed
Fixed deposit	-	-	[ICRA]AAA (Stable); reaffirmed
Commercial paper	20,000.00	25,000.00	[ICRA]A1+; reaffirmed/assigned for enhanced amount
Total	20,837.50	25,837.50	

*Instrument details are provided in Annexure-I

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 significant scale with consolidated assets under management (AUM) of Rs. 2,70,097 crore as on June 30, 2023 (~Rs. 2,90,200 crore as on September 30, 2023), distributed across different geographies and asset classes, lending granularity to its portfolio with a predominantly retail-focused book. The ratings also consider BFL's healthy earnings profile (3-year average [FY2021 to FY2023] return on average managed assets of 3.5%), driven by the healthy margins and operating efficiency. Moreover, the asset quality remains comfortable, resulting in low credit costs. BFL has built robust data analytics capabilities, facilitating early warning signals and enabling the effective and continuous monitoring of the portfolio.

ICRA draws comfort from BFL's strong capitalisation profile with a capital-to-risk weighted assets ratio (CRAR) of 24.6% as on June 30, 2023 (Tier I CRAR of 23.0%). ICRA takes note of the company's plans to raise Rs. 8,800 crore equity capital through the issuance of equity shares and Rs. 1,200 crore through convertible warrants. Further, it 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. The company is of significant strategic importance to the Bajaj Group, given its position as the lending vertical of Bajaj Finserv Limited and one of the major financiers for the Group's flagship company, Bajaj Auto Limited. ICRA expects BFL to continue benefitting 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 ~51% of the consolidated portfolio as on June 30, 2023. 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, the scale and granularity of its portfolio, and its commitment to robust risk management and prudent financial policies.

Key rating drivers and their description

Credit strengths

Strong market position and significant track record in Indian retail finance operations – BFL has a strong market presence in the Indian non-bank retail financing sector. The company achieved fast-paced growth over the last decade to build a sizeable portfolio of Rs. 2,70,097 crore as on June 30, 2023 (vs. Rs. 17,517 crore as on March 31, 2013) 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 one of the major financiers 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 leveraging the senior management's expertise, going forward as well.

High share of retail portfolio and geographical and product diversification provide stability in a competitive environment – As on June 30, 2023, the company had a presence in 3,828 locations across the country and a 1.6 lakh+ point of sale distribution network, catering to a total customer franchise of 7.3 crore borrowers. BFL predominantly focuses on retail lending and 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 – 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 9.0% of average gross managed assets (AMA) in FY2023 from 8.6% in FY2022 due to higher yields and the relatively stable cost of funds. Operating expenses rose to 4.0% of AMA in FY2023 from 3.7% in FY2022, with an overall increase in employee expenses, administrative expenses and fee and commission expenses. BFL's operating expense ratio is expected to moderate gradually as it continues to scale up its operations.

With the improvement in the overall asset quality indicators in FY2023 and the accelerated provisioning in FY2021 and FY2022, the company's credit costs (net of recoveries) declined to 0.8% of AMA (1.9% of AMA in FY2022). BFL reported a profit after tax (PAT) of Rs. 11,506 crore, translating into a return of 4.5% on AMA and 23.5% on average net worth in FY2023 compared to Rs. 7,028 crore, 3.5% and 17.4%, respectively, in FY2022. In Q1 FY2024, the company reported a PAT of Rs. 3,437 crore compared to Rs. 2,596 crore in Q1 FY2023. Its long-term profitability is expected to remain healthy.

Strong capitalisation profile – BFL was well-capitalised as on June 30, 2023 with a consolidated gearing of 4.1 times (3.7 times as on June 30, 2022) and a CRAR of 24.6% as on June 30, 2023 (Tier I CRAR of 23.0%), which was well above the regulatory requirement. With the gradual waning of the impact of the Covid-19 pandemic-induced disruptions, ICRA expects credit costs to remain largely stable while the overall profitability is expected to remain healthy. 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. ICRA takes note of the company's plans to raise Rs. 8,800 crore equity capital through the issuance of equity shares and Rs. 1,200 crore through convertible warrants.

Diversified funding profile – BFL has a diverse funding base with non-convertible debentures (NCDs) and subordinated debt accounting for 38% of the overall consolidated borrowings as on June 30, 2023, followed by banks (31%), deposits (21%) and other sources (10%) like external commercial borrowings, commercial paper (CP), collateralised borrowing and lending obligation (CBLO) and securitisation. 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 ~51% of the consolidated portfolio as on June 30, 2023. Given the significant 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-FY2023). 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.

Environmental and social risks

Given the service-oriented business of BFL, its direct exposure to environmental risks/material physical climate risks is not significant. Lending institutions can be exposed to environmental risks indirectly through their portfolio of assets, though such risks are not material for BFL as its lending operations encompass a well-diversified portfolio of products. Nevertheless, there is increasing interest from policymakers towards identifying the exposure of financing companies to carbon emissions through their financing activities. This process is, however, in an early stage and ICRA expects any adverse implications to manifest only over a longer time horizon, giving financing companies adequate time to adapt and minimise the credit implications. BFL has started a carbon footprint assessment process across its business operations, and it is committed to take necessary measures to identify and reduce its carbon footprint.

With regard to social risks, data security and customer privacy are among the key sources of vulnerabilities for lending institutions as material lapses could be detrimental to their reputation and invite regulatory censure. BFL has not faced any significant lapses in this regard.

Liquidity position: Superior

As per BFL's standalone liquidity statement as on June 30, 2023, there were no negative cumulative mismatches up to five years, factoring in the unutilised lines. The liquidity remained well supported by good on-balance sheet and off-balance sheet buffers. The liquidity coverage ratio of 373% for the quarter ended June 30, 2023 (243% for the quarter ended March 31, 2023) was well above the regulatory requirement of 70%. The liquidity profile is supported by the diversified funding profile and demonstrated track record of raising funds from diverse sources at competitive rates. The reported consolidated on-balance sheet liquidity, as on September 30, 2023, was ~Rs. 11,400 crore (~Rs. 11,852 crore as on March 31, 2023).

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the ratings could arise if the consolidated return on assets remains below 2% on a sustained basis (assuming no significant change vis-à-vis the current consolidated portfolio mix) and the consolidated gearing remains consistently above 7 times.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies Rating Approach – Consolidation
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidated

About the company

Bajaj Finance Ltd. (BFL) is one of the largest retail asset financing non-banking financial companies (NBFCs) 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, Commercial Lending, Rural Lending, SME Lending, Deposits, Payments 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 DBS Bank. BFL has two wholly-owned subsidiaries, viz Bajaj Housing Finance Limited (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.

Key financial indicators (audited)

Bajaj Finance Ltd. (consolidated)	FY2022	FY2023
As per	Ind-AS	Ind-AS
Profit after tax	7,028	11,506
Reported net worth	43,713	54,372
Total managed assets	2,22,940	2,84,705
Return on average managed assets	3.5%	4.5%
Return on average net worth	17.4%	23.5%
Gearing (gross; times)	3.8	4.0
Gross stage 3 assets	1.6%	0.9%
Net stage 3 assets	0.7%	0.3%
Solvency (Net stage 3 assets/Net worth)	3.0%	1.5%
Capital-to-risk weighted assets ratio (CRAR) [^]	27.2%	25.0%

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

Amount in Rs. crore

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 (FY2024)				Chronology of rating history for the past 3 years					
			Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023* (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021	
					Oct 18, 2023	Jun 06, 2023	Sep 23, 2022	Jun 07, 2022	Jul 15, 2021	Apr 22, 2021	Oct 01, 2020	
1	Non-convertible debenture	Long term	95.00	95.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
2	Subordinated debt	Long term	742.50	742.50	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
3	Subordinated debt	Long term	-	-	-	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
4	Fixed deposit	Long term	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	
5	Commercial paper	Short term	25,000.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
6	Non-convertible debenture	Long term	-	-	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
7	Subordinated debt	Long term	-	-	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
8	NCD programme	Long term	-	-	-	-	-	-	-	-	[ICRA]AAA (Stable); withdrawn	
9	Subordinated debt	Long term	-	-	-	-	-	-	-	-	[ICRA]AAA (Stable); withdrawn	
10	NCD programme	Long term	-	-	-	-	-	-	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	
11	Subordinated debt	Long term	-	-	-	-	-	-	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	
12	Subordinated debt	Long term	-	-	-	-	-	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	

Complexity level of the rated instruments

Instrument	Complexity indicator
Non-convertible debentures	Simple
Subordinated debt	Simple
Fixed deposit	Very simple
Commercial paper	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 I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
INE296A07HW2	NCD programme	Aug-20-15	8.90%	Aug-20-25	90.00	[ICRA]AAA (Stable)
INE296A07IA6	NCD programme	Oct-13-15	8.70%	Oct-13-25	5.00	[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 programme – Yet to be issued	NA	NA	7-365 days	25,000.00	[ICRA]A1+
NA	Fixed deposit programme	NA	NA	NA	NA	[ICRA]AAA (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company name	BFL's ownership (June 30, 2023)	Consolidation approach
Bajaj Housing Finance Limited	100.00%	Full Consolidation
Bajaj Financial Securities Limited	100.00%	Full Consolidation

Note: ICRA has taken a consolidated view of the parent (BFL) and its subsidiaries/associates while assigning the ratings

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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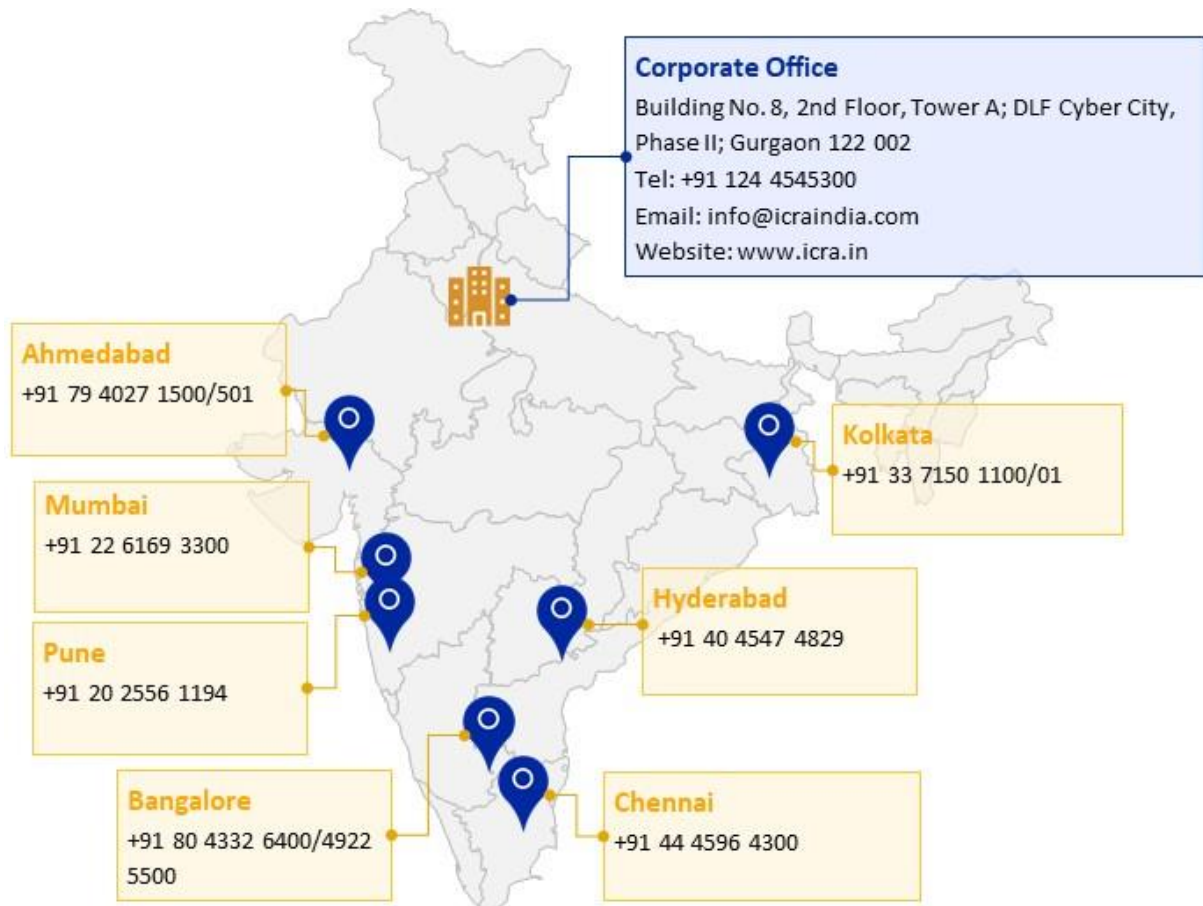
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