

October 25, 2024

Bajaj Finance Ltd.: Ratings reaffirmed; [ICRA]AAA (Stable) assigned to Rs. 10,000-crore NCD programme and rating withdrawn for Rs. 452.50-crore sub-debt programme

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
Non-convertible debentures	0.00	10,000.00	[ICRA]AAA (Stable); assigned
Subordinated debt	290.00	290.00	[ICRA]AAA (Stable); reaffirmed
Subordinated debt	452.50	0.00	[ICRA]AAA (Stable); reaffirmed and simultaneously withdrawn
Fixed deposit	-	-	[ICRA]AAA (Stable); reaffirmed
Commercial paper	30,000.00	30,000.00	[ICRA]A1+; reaffirmed
Total	30,837.50	40,385.00	

*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. 3,54,192 crore as on June 30, 2024 (Rs. 3,30,615 crore as on March 31, 2024), 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 [FY2022 to FY2024] return on average managed assets of 4.1%), driven by 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 21.7% as on June 30, 2024 (Tier I CRAR of 20.7%), supported by healthy internal accretion. 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. 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 ~46% of the consolidated portfolio as on March 31, 2024. BFL's prudent risk management on account of tightened underwriting and its focus on existing customers mitigate the asset quality risk 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 sustain 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.

ICRA has reaffirmed and simultaneously withdrawn the rating for the Rs. 452.5-crore subordinated debt as the instrument has matured and no amount is outstanding against the same. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

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. 3,54,192 crore as on June 30, 2024 (vs. Rs. 24,061 crore as on March 31, 2014) on a consolidated basis. It is of significant strategic importance to the Bajaj Group, given its position as the lending vertical of Bajaj Finserv 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, 2024, the company had a presence in 4,202 locations across the country and a distribution network with more than 2.0 lakh point of sale, catering to a total customer franchise of 8.8 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 the company 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 benefitted from 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. Given the higher cost of funding, the net interest margin faced some pressure in FY2024 and declined slightly to 8.9% of average managed assets (AMA) from 9.0% in FY2023. Also, credit costs increased in FY2024 due to the higher delinquencies in the unsecured business segment and write-offs. However, the improving operating efficiency has kept the overall profitability at a comfortable level. BFL reported a profit after tax (PAT) of Rs. 14,451 crore, translating into a return of 4.3% on AMA and 22.1% on average net worth in FY2024 compared to Rs. 11,508 crore, 4.5% and 23.5%, respectively, in FY2023. The company reported a consolidated PAT of Rs. 3,912 crore in Q1 FY2025 (Rs. 3,437 crore in Q1 FY2024). ICRA expects the long-term profitability to remain healthy.

Strong capitalisation profile – BFL was well-capitalised as on June 30, 2024 with a consolidated gearing of 3.8 times (3.8 times in March 2024, 4.0 times in March 2023) and a CRAR of 21.7% as on June 30, 2024 (Tier I CRAR of 20.7%), which remains well above the regulatory requirement. ICRA expects the overall profitability to remain healthy, leading to low incremental capital requirement for the next two years, assuming the credit cost does not significantly exceed the current estimate. ICRA takes comfort from BFL's demonstrated track record of raising capital in a timely manner (most recent capital raise of ~Rs. 9,100 crore in November 2023) in order to consistently maintain a prudent gearing level.

Diversified funding profile – BFL has a diverse funding base with non-convertible debentures (NCDs) and subordinated debt accounting for 34% of the overall consolidated borrowings as on March 31, 2024, followed by banks (30%), deposits (20%) and other sources (16%) like external commercial borrowings, commercial paper (CP), collateralised borrowing and lending obligation and securitisation. ICRA also notes that the company maintains a low share of funding from short-term sources. In ICRA's opinion, BFL has sufficient headroom, in terms of leveraging and tapping the deposit base as an incremental source, apart from other avenues such as ECBs, direct assignment, etc., 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 monitorable – Unsecured consumer finance, personal loan finance and SME finance accounted for ~46% of the consolidated portfolio as on March 31, 2024. 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 part was disbursed in the last few years (FY2019-FY2024). 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 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 vulnerability for lending institutions as material lapses could be detrimental to their reputation and invite regulatory censure.

Liquidity position: Superior

As per BFL’s standalone liquidity statement as on June 30, 2024, there were no negative cumulative mismatches up to five years, factoring in unutilised funding lines. The liquidity remained well supported by good on-balance sheet and off-balance sheet buffers. The liquidity coverage ratio of 294%, for the quarter ended June 30, 2024 (260% for the quarter ended March 31, 2024), was well above the regulatory requirement of 85%. The liquidity profile is supported by the diversified funding profile and the demonstrated track record of regularly raising funds from diverse sources at competitive rates. BFL had on-balance sheet liquidity (standalone) of ~Rs. 29,454 crore as on March 31, 2024 (~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	Non-banking Finance Companies (NBFCs) Policy on Withdrawal of Credit Ratings
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 warranties, comprehensive asset care, co-branded credit cards and wallets. BFL offers a co-branded credit card with RBL Bank and DBS Bank. As on June 30, 2024, it had two wholly-owned subsidiaries – 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	FY2024	Q1 FY2025*
As per	Ind-AS	Ind-AS	Ind-AS	Ind-AS
Total income	30,755	40,301	54,983	16,102
Profit after tax	7,028	11,508	14,451	3,912
Total managed assets	2,22,940	2,84,705	3,85,101	NA
Return on average managed assets	3.5%	4.5%	4.3%	NA
Gearing (gross; times)	3.8	4.0	3.8	NA
Gearing (managed; times)	4.0	4.2	3.9	NA
Gross stage 3 assets	1.6%	0.9%	0.8%	0.9%
Capital-to-risk weighted assets ratio (CRAR) [^]	27.2%	25.0%	22.5%	21.7%

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

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

[^] CRAR is on standalone basis; *As per limited review financials

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

Current (FY2025)						Chronology of rating history for the past 3 years					
FY2025						FY2024		FY2023		FY2022	
Instruments	Type	Amount Rated (Rs. crore)	25-Oct-2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Subordinated debt	Long term	290.00	[ICRA]AAA (Stable)	07-May-2024	[ICRA]AAA (Stable)	06-Jun-2023	[ICRA]AAA (Stable)	07-Jun-2022	[ICRA]AAA (Stable)	22-Apr-2021	[ICRA]AAA (Stable)
				-	-	18-Oct-2023	[ICRA]AAA (Stable)	23-Sep-2022	[ICRA]AAA (Stable)	15-Jul-2021	[ICRA]AAA (Stable)
Commercial paper	Short term	30,000.00	[ICRA]A1+	07-May-2024	[ICRA]A1+	06-Jun-2023	[ICRA]A1+	07-Jun-2022	[ICRA]A1+	22-Apr-2021	[ICRA]A1+
				-	-	18-Oct-2023	[ICRA]A1+	23-Sep-2022	[ICRA]A1+	15-Jul-2021	[ICRA]A1+
NCD programme	Long term	10,095.00	[ICRA]AAA (Stable)	07-May-2024	[ICRA]AAA (Stable)	06-Jun-2023	[ICRA]AAA (Stable)	07-Jun-2022	[ICRA]AAA (Stable)	22-Apr-2021	[ICRA]AAA (Stable)
				-	-	18-Oct-2023	[ICRA]AAA (Stable)	23-Sep-2022	[ICRA]AAA (Stable)	15-Jul-2021	[ICRA]AAA (Stable)
Fixed deposit	Long term	-	[ICRA]AAA (Stable)	07-May-2024	[ICRA]AAA (Stable)	06-Jun-2023	[ICRA]AAA (Stable)	07-Jun-2022	[ICRA]AAA (Stable)	22-Apr-2021	MAAA (Stable)
				-	-	18-Oct-2023	[ICRA]AAA (Stable)	23-Sep-2022	[ICRA]AAA (Stable)	15-Jul-2021	MAAA (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
Not issued yet	NCD programme	NA	NA	NA	10,000.00	[ICRA]AAA (Stable)
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); withdrawn
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)
INE296A14WU1	CP programme	Jan-09-24	8.15%	Jan-09-25	575.00	[ICRA]A1+
INE296A14WT3	CP programme	Jan-10-24	8.15%	Jan-10-25	405.00	[ICRA]A1+
INE296A14WV9	CP programme	Jan-15-24	8.15%	Jan-15-25	25.00	[ICRA]A1+
INE296A14XA1	CP programme	Feb-02-24	8.15%	Jan-30-25	50.00	[ICRA]A1+
INE296A14XA1	CP programme	Feb-05-24	8.15%	Jan-30-25	90.00	[ICRA]A1+
INE296A14XL8	CP programme	Mar-06-24	8.10%	Mar-06-25	275.00	[ICRA]A1+
INE296A14XL8	CP programme	Mar-07-24	8.10%	Mar-06-25	150.00	[ICRA]A1+
INE296A14XK0	CP programme	Mar-07-24	8.10%	Mar-07-25	75.00	[ICRA]A1+
INE296A14XM6	CP programme	Mar-11-24	8.10%	Mar-11-25	650.00	[ICRA]A1+
INE296A14XN4	CP programme	Mar-12-24	8.10%	Mar-12-25	50.00	[ICRA]A1+
INE296A14XX3	CP programme	Apr-19-24	7.95%	Apr-17-25	500.00	[ICRA]A1+
INE296A14XY1	CP programme	Apr-22-24	7.95%	Apr-22-25	390.00	[ICRA]A1+
INE296A14XZ8	CP programme	Apr-23-24	7.95%	Apr-23-25	100.00	[ICRA]A1+
INE296A14YJ0	CP programme	Jun-13-24	7.90%	Jun-13-25	100.00	[ICRA]A1+
INE296A14YM4	CP programme	Jun-24-24	7.90%	Jun-24-25	50.00	[ICRA]A1+
INE296A14YN2	CP programme	Jun-28-24	7.70%	Oct-04-24	500.00	[ICRA]A1+
INE296A14Y00	CP programme	Jul-03-24	7.87%	Jul-03-25	100.00	[ICRA]A1+
INE296A14YP7	CP programme	Jul-08-24	7.87%	Jul-08-25	75.00	[ICRA]A1+
INE296A14YQ5	CP programme	Jul-15-24	7.91%	Jul-15-25	950.00	[ICRA]A1+
INE296A14YR3	CP programme	Jul-16-24	7.91%	Jul-16-25	1,150.00	[ICRA]A1+
INE296A14YT9	CP programme	Jul-16-24	7.65%	Oct-15-24	250.00	[ICRA]A1+
INE296A14YU7	CP programme	Jul-18-24	7.65%	Oct-17-24	1,925.00	[ICRA]A1+
INE296A14YS1	CP programme	Jul-18-24	7.91%	Jul-18-25	525.00	[ICRA]A1+
INE296A14YV5	CP programme	Jul-22-24	7.65%	Oct-21-24	575.00	[ICRA]A1+
INE296A14YX1	CP programme	Jul-23-24	7.65%	Oct-25-24	75.00	[ICRA]A1+

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
INE296A14YY9	CP programme	Aug-26-24	7.59%	Nov-25-24	400.00	[ICRA]A1+
INE296A14YY9	CP programme	Aug-27-24	7.59%	Nov-25-24	300.00	[ICRA]A1+
INE296A14YZ6	CP programme	Aug-27-24	7.59%	Nov-26-24	275.00	[ICRA]A1+
INE296A14ZA6	CP programme	Aug-29-24	7.59%	Nov-28-24	150.00	[ICRA]A1+
Yet to be issued	CP programme	NA	NA	7-365 days	19,265.00	[ICRA]A1+
NA	Fixed deposit programme	NA	NA	NA	NA	[ICRA]AAA (Stable)

Source: Company, ICRA Research

Annexure II: List of entities considered for consolidated analysis

Company name	BFL's ownership (June 30, 2024)	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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