



“Bajaj Housing Finance Limited Q1 FY-26 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY '26 Earnings Conference Call for Bajaj Housing Finance Limited.

As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ajit Kumar from JM Financial. Thank you and over to you, Mr. Ajit Kumar.

Ajit Kumar: Thank you, Dorwin. Good evening, everyone and welcome to the 1Q FY '26 Earnings Conference Call of Bajaj Housing Finance. First of all, I would like to thank the Management of Bajaj Housing Finance for giving us this opportunity to host the call.

From the Management team today, we have Mr. Atul Jain – Managing Director, Mr. Gaurav Kalani – Chief Financial Officer, and other Senior Members of the Management Team.

We will have opening comments from the Management Team, post which we will open the floor for Q&A.

With that, I would like to transfer the call to Mr. Atul Jain for his opening remarks. Over to you, sir.

Atul Jain: Thank you, Ajit, and JM team for hosting us. A very good evening to all people joining on the call. I have with me, Gaurav Kalani, who is our CFO, and all the senior members of the team to be present here to answer any questions you may have, once we have gone through the investor deck. Over the next 10-15 minutes, I will quickly highlight the important aspects or important panels on the deck, and then we will open the forum for questions and answers.

I will move to Panel #3. Overall, Q1 was a balanced quarter with AUM growth of 24%, which was driven by moderation in real estate market, coupled with intense competitive pricing, resulting into higher attrition. PAT grew by 21%, and ROA of 2.3% was in line with Q1 FY '25. Asset quality remained healthy with GNPA at 30 bps and NNPA at 13 bps respectively. OPEX to NTI remained flat at 21.2% against 21% in Q1 FY '25.

In terms of geographical coverage, we operate through a network of 217 branches across 175 locations. Annualized ROE for the quarter came at 11.6%, and annualized credit cost was 0.16%. Capital adequacy remains comfortable, aided by capital raised during the last year, with CRAR at 26.9%, and PBC ratio, which is a principal business criteria for being an HFC as defined by the Reserve Bank of India was at 61.71%, higher than the regulatory requirement of 60%.

I will move to Panel #4 now. I have covered overall AUM growth on the previous panel. At product level, home loans grew by 21%, LAP by 30%, lease rental discounting by 29% and developer financing by 32%.

During the quarter, AUM grew by Rs. 5,736 crores against Rs. 5,701 crores in Q1 FY '25. Portfolio mix continues to remain well diversified with HL mix of 55.8%, LAP of 10.5%, lease rental discounting at 20.4%, and DF at 11.9%. In terms of disbursement, company disbursed Rs. 14,651 crores in Q1 FY '26 against Rs. 12,400 crores in Q1 FY '25, a growth of 22%.

I will move to the next panel. Cost of funds on sequential basis saw reduction of 21 bps and stood at 7.7% in Q1 FY '26 versus 7.9% in Q4 FY '25. This was owing to incremental borrowings at lower rate, coupled with repo rate transmission benefit on existing borrowing. Borrowing mix remained well diversified between various instruments, where money market stood at 53%, bank borrowings at 37% and NHB refinance at 10%.

Gross spread for the quarter was flat at 1.8% on sequential basis with reduction in portfolio yield, which got offset with reduction in cost of funds. Net interest margin stood at 4% and that too was in line with Q4 FY '25. OPEX to NTI was flat at 21.2% in Q1 FY '26.

Company's digital initiatives continue to get traction with e-agreement penetration now at 93%, and improved penetration in digital customer onboarding journey now at 88% in June '25.

I will move to Panel #6. Healthy asset quality during the quarter with GNPA of 30 bps and NNPA of 13 bps as of 30th June, '25. Annualized credit cost stood at 16 bps in Q1 FY '26, against 5 bps in Q1 FY '25. However, if we exclude overlay release of Rs. 25 crores in Q1 FY '25, normalized credit cost would have been at 17 bps in Q1 FY '25. So, 16 bps in Q1 FY '26 versus 17 bps normalized in Q1 FY '25.

Profit after tax grew by 21% to Rs. 583 crores in Q1 FY '26 against Rs. 483 crores in Q1 FY '25. Annualized ROA for the quarter was 2.3%, which was in line with Q1 FY '25. Annualized ROE was 11.6% in Q1, due to excess capital, post capital raises done in FY '25. Overall net worth stood at Rs. 20,508 crores as of 30th June '25.

Now I am jumping straight to Panel #15. These are key financial indicators for medium term guidance for the Company. They have not changed from the previous quarter.

I will move to Panel #17. I have covered majority of the metrics in the previous slides. However, during the quarter, net total income grew by 25% as an additional metric. Operating expenses grew by 26%. Overall, PAT came at Rs. 583 crores against Rs. 483 crores.

Moving to Panel #19. As evident, portfolio yield reduced by 20 bps on sequential basis and 30 bps on Y-o-Y basis and stood at 9.5% in Q1 FY '26. While COF also witnessed reduction of 20 bps on sequential as well as Y-o-Y basis to 7.7% in Q1 FY '26. Thus, on a sequential basis, the gross spread was flat at 1.8%. However, there was a reduction of 10 bps over Q1 FY '25, because of a 30 bps reduction on the portfolio while the cost of fund reduced by 20 bps.

OPEX-to-NTI, as we called out, was flat at 21.2% due to investment in SBU and non-metro markets as we called out during last quarter's Investor Day.

Now, I have already covered asset quality, ROA and ROE on the previous panel. Thus, we will move to Panel #20. Well diversified borrowing mix, which is backed by borrowing relationship with 17 banks, NCD mix had inched up 5% sequentially, corresponding reduction in bank borrowing by 4.5% and NHB refinance by 0.40%. This resulted as we borrowed more long-tenure NCD during the quarter gone by to optimize cost of funds.

Moving to Panel #23. Overall, well diversified AUM mix, witnessed movement between products while change within our guided range. LRD mix improved sequentially by 1.3% and reduction in developer finance by 60 bps, home loan by 40 bps, and LAP by 20 bps.

Moving to Panel #28, GNPA, NNPA have been covered on earlier panels. Stage 1 assets had slight reduction of 3 bps on sequential basis to 99.36% in Q1 FY '26, with increment of 2 bps in Stage-2 assets at 0.34% and 1 bps in GNPA at 0.30%. Provisioning coverage ratio remained healthy at 56.25%.

Moving to Panel #30. In terms of product-wise GNPA, marginal increment of 2 bps in home loans at 0.36% in Q1 FY '26, while improvement of 4 bps in LAP at 0.61%. Overall GNPA thus inched up by 1 bps. Overall NNPA inched up by 2 bps to 13 bps as of 30th of June.

Moving to Panel #31. This is the new panel what we have added for the first time as we have started sharing the investor deck. While the medium-term guidance continues to remain intact as called out in the earlier panel. Given the 100 bps rate reductions which have happened since February '25, we have added this new Panel in the current quarter on Management assessment of key financial indicators for FY '26.

Due to heightened competitive activity, pricing on the acquisition, higher portfolio attrition and benign real estate market, AUM growth assessment for FY '26 is expected to be in the range of 21%-23%.

In terms of operating efficiency, as the company has been investing in the newly launched SBU and non-metro market coupled with NIM moderation due to lower rate scenario, OPEX to NTI is expected to be flat in the corridor of 20%-21% in FY '26 in line with what we delivered last year. These metrics are also expected to hold across portfolio and remain within our medium-term guided range.

Coming to profitability, NII is expected to remain stable and in line with FY '25, while NIM or NTI may moderate by 15-20 bps. This is because of 2 factors. One is reduction in investment income, which was higher in last year due to excess investment post 2 rounds of capital raise and also lower income on derecognized loans, because we have planned for lower assignment in the current year versus what we did in last year.

Now, ROA is expected to remain range bound at 2%-2.2%, which is in line with our medium-term guidance and with ROE moderation of 11%-12% which is resulting from equity overhang of a capital raise done in FY '25.

Now, this is all on important updates for the quarter from my side. Me and Management team are happy to take questions from the forum. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Ladies and gentlemen, we will now wait for a moment, while the question queue assembles. The first question is from the line of Dhaval from DSP. Please go ahead.

Dhaval Sanghvi: Hi, thanks for the opportunity. Atul, I just wanted to say a couple of things. First is on the guidance for FY '26. So, effectively, we have cut down our AUM expectation by approximately 300 basis points versus our previous assessment.

And in terms of margin, there is another 5 bps of impact mainly because of the additional repo. Last time, I think you remember, I think we said 75 bps, now it is already 100 basis points. Another 5 bps of margin compression and no improvement in OPEX, because of the additional investments, which is basically offset by the 5-bps side cost benefit compared to your earlier expectation, and hence the ROA in the 2 to 2.2 corridor. So, is the broad guidance understanding correct or is there any change? So, that is the first question.

Atul Jain: Broadly correct, Dhaval. 21%-23% against a medium term of 24%-26% AUM growth trajectory is correct. Margins, we are likely to see a compression of 5-10 bps which is called out.

Improvement in OPEX, while on a ratio you will not see improvement, but on operating efficiency point of view, I will only like to call out that we will continue to improve because improvement is not visible, because investment is one part, but the second is also moderation in NIM and NTI like we called out because of a lower assignment. Because OPEX to NTI ratio has 2 parts - One is a growth in income, second is OPEX.

OPEX efficiency, we continue to drive despite the investments what we are making, but because of a moderation in NIM as well, like if I have to give an example, if the NII or NTI would have been the same in this Quarter 1 FY '26 the way it was in FY '25, our OPEX to NTI would have looked at 19% against a 21.2%.

So, operating efficiency is continuing to be there despite we continue to invest, but NIM moderation or NTI moderation will mean that the OPEX to NTI line will look flat as far as the ratios outcome is concerned. I hope I have been able to answer your question, Dhaval.

Dhaval Sanghvi:

Understood. This is very useful. Just one other thing which I wanted to touch base is on the growth expectation. So, typically, we see this in every rate cycle that there is a lead lag between the competitive environment where someone benefits on the cost of funds, better than others but over a period of time it catches up. So, do you see somewhere in the second half of this year and maybe early 2027, you see the catch up happen from a competitive dynamic perspective or what are the ways to basically go back to our medium-term growth expectation? So, just wanted to hear your thoughts on that.

Atul Jain:

Our hope would be that by end of Quarter 3 or so, we should be able to go back to, that is why we have not changed our medium-term guidance, while we have changed the assessment for the current year.

The reason for that is because of very intense competitive activity, as you see, the disbursements grew by 22% on a Y-o-Y, but AUM growth was same or flat in terms of an absolute number. That was of heightened competitive activities due to rate cut pressure in the segments what we operate. We estimate that it will still flow through for 1 or 2 quarters. After that we are expected to come back to the normal trajectory what we think. That is what we assess as of today.

Dhaval Sanghvi:

And what would be your incremental spreads, like where we would be today and your expectation for the full year?

Atul Jain:

NII is expected to remain flat, compared to what last year was there. So, gross spread at 1.8%, plus minus 4-5 bps here and there is what we continue to maintain, because that we control through the change in the product mix or change in the segment, because that is where we want to be in the corridor. NTI will go down, because of like we called out lower investment income in the current year versus last year, because of overhang for excess capital last year was much higher and we keep on consuming every month as we go forward.

Second is the lower assignment income.

Dhaval Sanghvi:

Got it. This is very useful, Atul. Thanks. All the best.

Atul Jain:

Thanks Dhaval.

- Moderator:** Thank you. The next question is from the line of Raghav from Ambit Capital. Please go ahead.
- Raghav Garg:** Hi. Good evening. I just have a few questions. One is on the LAP growth that has been pretty strong for last many quarters. I just wanted to understand what are you doing to deliver this kind of growth in the LAP portfolio? Is it expansion into new states or new customer profiles? I just want to get better color on this. That's my first question.
- Atul Jain:** Raghav, the way we look at LAP and lease rental discounting, we look at an interchangeable segment basis the risk-return profile. We had called out 2 quarters back, stating that as the risk-return ratios become favorable for LAP portfolio, we can increase our weight on the LAP, which is what we had done. There is a Home Loan portfolio because of a PBC requirement.
- There is a non-Home Loan portfolio where LAP and LRD both sit. So, this is opportunity. We see an opportunity which is risk-return metric being more positive in LAP versus LRD. We will increase that ratio.
- We are data-dependent and market-competitive activity-dependent. Because LAP, the pricing had rectified to a certain extent in the market in the last 2 quarters, what we saw. That's why we could grow LAP more. It will depend upon risk-return ratios, Raghav. We remain committed to grow whichever part of the business makes better business sense for the company.
- Raghav Garg:** What would be your disbursement yield on the LAP portfolio versus say, whatever you are charging in the Home Loan portfolio, how much higher would it be?
- Atul Jain:** Approximately, on a thumb-rule basis, I think it will be higher by 100-120. I will just give a minute to Gaurav to check the data. My approximate ballpark figure will be 100-120 bps.
- Raghav Garg:** Understood.
- Gaurav Kalani:** Between the portfolio...
- Atul Jain:** 100 bps. I said 100 to 120 bps. It is 100 bps.
- Raghav Garg:** Understood. My other question is on the employee OPEX bid. So, when I just look at your employee OPEX and then divide that by the average number of employees, that number, which is sort of an indicator of salary expense, has been growing at a rate of 30% for the last many quarters. What is driving such growth in salary costs? And where do you foresee this trend or growth rate settling? Or when do you see this growth rate coming down? Because 30% for the last many quarters is a pretty steep growth rate, right? I just want to understand why this is the case.
- Atul Jain:** Employee cost.

Gaurav Kalani: Employee cost has year-on-year grown 20% from Rs. 113 crores to Rs. 135 crores. Are you looking at the same number, Raghav?

Atul Jain: Raghav, it is a different number. Because 30% is not the number what we have. 20% is the number what we have. In fact, it was flattish versus last year. Last year was a flattish number versus the previous year number. So, last 2 years put together, we would have seen close to 20% kind of a growth in the salary cost. But to answer that question, where is the growth coming in the recent quarters we have seen in salary, is coming largely from the investments what we have done in SBU, as we called out, and also the non-metro market.

Also it would continue to be done for the next 6 months. I will say at least next 2 to 3 quarters it will continue to be there. Because as we continue to expand. Non-metros, I will say maybe another 1 quarter to 2 quarters where we will continue to invest to reach at reasonable size.

SBU probably we will continue to invest, not only in the current year, but in the next year as well as we continue to expand our geographic presence and the customer segmentation.

At an overall level, it will not impact materially in the company OPEX line, that we are mindful of. That is where I called out OPEX to NTI ratios, the operating efficiencies will continue to build, despite our building or making these investments. As NIM moderation tapers off, you will again start seeing the operating efficiencies coming in.

Raghav Garg: Understood. No, I was just referring to this employee count, which seems to be about 10% lower Y-o-Y. But I think your explanation helped a lot. So, can I move to the next question?

Atul Jain: Yes, please.

Raghav Garg: Okay. So, I just wanted to clarify whether you said that NIM may moderate by 5 to 10 basis points. Is that what I heard? Is that the correct understanding?

Atul Jain: Yes, it will moderate to 10 basis points roughly, 5 to 10 basis points.

Raghav Garg: Okay. And one explanation was that you will do lower assignments. The other one was lower investment income, what is the reason for this?

Atul Jain: Lower investment, it is Y-o-Y comparative what we are doing. Last year since we had done excess capital, because we did 2 rounds of a capital raise. One was the rights issue what we raised in April and then there is a public issue of Rs. 3560 crores what we did there. So, consequently, we were carrying much higher levels of investment. As the capital got consumed, the issued proceeds got deployed.

The current year Y-o-Y, the investments are going to be lower and coupled with the yield from the investment to the current year is going to be lower, because of a lower interest rate regime.

So, both the factors put together, there will be a lower investment income, which is visible in the Q1 FY '25 to Q1 FY '26 as well if you look at the differential between after NII to NTI. The differential is NII is above, but NTI is lower versus Q1 FY25 to Q1 FY26.

Raghav Garg: Okay. But say for example if I look at cash and investment side, if I look at it for this quarter and compare it to 1Q FY '25, cash and investment as a percentage of borrowings of total assets, it seems to be same Y-o-Y. There is not material difference.

Atul Jain: Raghav, you are looking at a 30 June figure. When we look at the investment, it is an average investment and average cash carry during the quarter.

Raghav Garg: Understood.

Atul Jain: At the quarter end, the figure can be the same, but average investment for the quarter can be very different even when the number is the same.

Raghav Garg: Fair enough. Thanks a lot for the questions.

Atul Jain: Thanks, Raghav.

Moderator: Thank you. Our next question comes from the line of Nischint Chawathe from Kotak. Please go ahead.

Nischint Chawathe: Hi. Thanks for taking my question. If I look at the growth rate in home loans and that is kind of consistently sort of slowing down from 30% in the first quarter of last year, now going all the way to like around 20%-20.5%. So, I am curious, is this because of just heightened competition or is it to do with the fact that demand has not yet picked up? What is it that is happening over here? And I know you do not give break-up of disbursements, but some color in terms of whether there is any growth in disbursements or not.

Atul Jain: So, Nischint, the growth rate in HL has come down due to 3 factors. One is the real estate market has been showing some moderation over the last 2-3 quarters as evident from various reports, what you would have seen as well as what was published in newspapers. Even when you look at the Bureau data for home loan disbursals in the last 2-3 quarters versus earlier, there is virtually no disbursal growth.

There is an AUM growth, but no disbursal growth at an industry level. So, when the industry growth is not there in disbursements, for you to continue to grow disbursals at the pace what you were doing becomes difficult, because you have to take the part from someone else.

To answer the question in that sense that disbursal growth is still happening in the retail side, for Q1 versus last Q1 we would have a 12% disbursal growth as far as home loans are concerned. But it is higher attrition because of competitive pricing which is one part. Second part is the

market being slower than what it used to be specifically Y-o-Y, that is what is resulting into the growth being low.

Nischint Chawathe: Got it. And any sense in terms of, I know you explained the competitive dynamics changing aspect, but any sense in terms of any revival in demand that you would probably expect?

Atul Jain: So, there are 2 parts. For the size of a demand perspective, I think we are a small player. As of now, we have a good highway to cater and as we continue to expand in our segmentation of near prime and Affordable, we will continue to grow the disbursals as well as the AUM, even if the demand remains sideways.

What we see in the Q3, which I said as an answer to the first question, we see by Q3, the pricing disruption and accordingly the portfolio attrition to stabilize, which will mean that we expect or we should be back on the mode by Q3 or so, as per our estimate in case there is no further large pricing disruptions in the market, which we do not estimate to be, but I am just stating that if there is no large further pricing disruption in the market, growth even remaining sideways, I think we can revert to our original growth numbers, even if the overall industry level remains sideways.

Nischint Chawathe: Got it. No, in terms of rate transmissions, you would have done 2 cuts, right, if I recollect rightly and if you could just sort of spell that out once again for us.

Atul Jain: We have done 3 cuts. Third cut was done on 1 July. So, there are 2 parts to the rate transmission. One part is that there is a significant amount of a book, which is linked to external benchmark even in the asset side. So, there the rate transmission happens as per the benchmark which is agreed and passed on.

Other is the book linked to our internal benchmark. Internal benchmark, where the prime salaried book, we have passed on 3 cuts till now from the rate cut cycle, which is totaling a total amount of 45 bps on the existing portfolios, on internal PLR.

On the external repo linked benchmark portfolio, which is also significant in our case, there is a full 100 bps of transmission which has happened.

Nischint Chawathe: And 45 is fully passed on or 45 will be reflected or how much will be reflected from the next quarter?

Atul Jain: From the 45, 20 is passed on 1 July. So, what we are factoring in for the ROAs for the coming quarters or for the full year is factoring in what we have passed on 1 July, because there is an incremental cost benefit also which is going to accrue in the Q2. So, we expect our cost of funds to go down further by close to 20 to 25 bps in the Q2 itself. So, the NII will hold. There is a reduction in the portfolio yield as you will see the next quarter or after that result. But there will be a corresponding reduction in the cost of fund also what you will be able to see.

Nischint Chawathe: Got it, got it. This is very helpful. Thank you very much. All the best.

Moderator: Thank you. Our next question comes from Prithviraj Patil from Investec. Please go ahead.

Prithviraj Patil: Yes. So, my question is on the yields and the disbursement growth. So, if you could just spell out the incremental yield on the HL and LAP portfolio, and the disbursement growth as well for the HL and LAP portfolio for this quarter.

Atul Jain: The retail portfolio like I called out for Nischint, the disbursal growth was 12% versus Q1 FY '25. Incremental yield at the HL level, just give me a minute, I will check from Gaurav

Gaurav Kalani: 8.76% in HL.

Atul Jain: In HL, aggregate average yield is 8.76% for the quarter gone by in the incoming portfolio. But it is an aggregate of segments because we operate from 7.5% onward. Most of the customers we operate at 7.5%, which is after the June rate cut. And April-May-June is an aggregate of April where the pricing was different, May was different. As of today, it will be lower than what was at Q1.

Prithviraj Patil: Yes. And for the LAP part?

Atul Jain: Corresponding reduction in cost of funds as well.

Prithviraj Patil: Yes. So, for the LAP as well, the loan against LAP part, the disbursement growth and the incremental yield.

Atul Jain: Disbursal growth will be... At the product level, that is why we gave at the retail level, I think, but it will be in the similar range. Because it is largely HL, which is more dominant. In terms of a yield, it will remain between 9.6, 100 to 120 bps higher than what it is in HL, because it is a portfolio yield as well as incoming portfolio yield. This 8.7 was an incoming portfolio for HL 8.76 average in the last quarter. It will be roughly in the range of 9.7 to 9.9.

Prithviraj Patil: Okay. Thank you. That's it from my side.

Moderator: Thank you. The next question comes from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Yes. Hi sir. Good evening. Sir, first thing is just a clarification. You repeated that twice already, but this disbursement growth of 12% that you spoke about, is it HL disbursement growth or is it your retail disbursement growth, which includes your HL and LAP?

Atul Jain: Between HL and LAP, it will be similar almost.

- Abhijit Tibrewal:** Okay. Okay. But this is both HL and LAP put together.
- Atul Jain:** Yes. Retail.
- Abhijit Tibrewal:** Retail. Got it. And, sir, then you spoke about that lowest rate which is being offered by BHFL in HL is currently 7.75%.
- Atul Jain:** 7.49.
- Abhijit Tibrewal:** 7.49%. That's the lowest rate which is being offered by us. So, sir, from what I could understand, right, this moderation in growth guidance, you are also factoring in competitive pricing on acquisition of new loans. So, what is the rate that is being offered by competition, perhaps because of which, looking at the risk return metrics, we are having to let go of some of that business?
- Atul Jain:** So, there are various companies and various banks which are offering at a different price. So, that data is there in the public domain carried by most of the newspapers. The rates are varying from, starting from as low as 7.3%, 7.35% from largely public sector banks to 7.9%, 7.8% from few private sector banks.
- Then we also say when we start at 7.49%, it's a spectrum which starts with. But depending on the customer bureau, customer, various attributes, aspects, income range, the rate varies. 7.49% is for the best of best customer, and there is a staircase on the type of a customer, and also the income profile, bureau profile, which applies.
- So, the lowest range in the market today would be starting at 7.3%, 7.35%, which is largely all public sector banks, going up to for the real prime customer, up to 7.75%, 7.8%, between 7.35 to 7.7 for the topmost customer, then there is a range which keeps on going down. So, yes, the rate pressure or the competitive intensity is very significant in the market.
- Abhijit Tibrewal:** Got it, sir. And sir, the second question I had was on the Stage-3 PCR. I saw it's declined. Understandably, still remains healthy, but has declined about 4% Q-o-Q. So, just trying to understand, went up in the fourth quarter, has declined again. So, what is happening there on the Stage-3 PCR line?
- Atul Jain:** Abhijit, it is a function of, at the stage where the case, because there is an ECL model on various DPDs, various case, which moves. There is a differential of LGD and the provision rates, which get applied. So, there is no change between the provision policy of the company between March to June. It's a function of an outcome of, because there are cases which is as per our policy, we go and provide extra than our ECL model if the risk assesses to be there.
- So, their provision coverage can look like elevated if there is a risk assessment on additional risk from few customers which is outside or in addition to the ECL, versus in a quarter if they have

assessed the customers to be having higher risk than the ECL model assessment. So, ECL model remains stable, Abhijit.

There is an assessment-based additional provisioning in some quarter which can risk and take on few of the accounts, which can result into PCR moving to a certain extent. Like we have guided also in the medium range, as we continue to grow, as we get bigger, and unfortunately, while not wanting us, NPA pool also will grow bigger. These swings in PCR ranges will not be there, because today NPA pool is total Rs. 300 odd crores.

So, the provisioning coverage can swing on basis few cases, assessment of risk being higher. Please mind it, we are not saying that below ECL we can provide. It is above ECL risk assessment, which can vary.

Abhijit Tibrewal:

Got it, sir. Thanks for that. And sir, last question, again circling back on margin.

Atul Jain:

Abhijit, just to close this. LGD for us as an ECL model is 40%. So, anything above 40% is an additional risk assessed on the accounts which is there. So, in the long range, at some point of time, it can even be 40%, if the risk has not assessed, any particular individual case to be more riskier than the ECL model. That's where the range can be swinging between basis risk assessment on an individual account.

Abhijit Tibrewal:

Got it, sir. So, just to clarify on that, what you suggested is 40% PCR is good enough, based on the LGDs that we have, based on your additional risk assessment, right, there are higher PCRs that you are carrying on, certainly.

Atul Jain:

As per the ECL model, we are required to have 40% provisioning coverage. However, we take a conservative view and the risk and collection teams, debt Management teams, take calibrated calls on where do they see if the long-term risk additionally is coming. They recommend for additional provision, which then results into a higher PCR.

Abhijit Tibrewal:

Got it, sir. This is useful. And, sir, just last question, circling back again on margin and the PLR discussions that we have already had in the call. So, total 3 PLR rate cuts totaling to 45 basis points, including the last 20 basis points PLR cut, which you did on July 1st. So, just trying to understand, sir, I mean, how often is the ALCO meeting done, and at what frequency can PLR rate cuts be done in the future? I think, there will be a component of competitive intensity, and the portfolio attrition that you are seeing, which will dictate that. That was the first part.

And the second part was, sir, in the last earnings call, you had guided for margin compression of 10 to 15 bps, and also kind of added there that some bit of it can be mitigated through a change in product mix or a product mix improvement. This time around, we have guided for 15 to 20 basis points margin compression this year. So, now that mitigation through improvement in product mix will no longer hold this year, is it?

Atul Jain: So, Abhijit, 2 answers. First, on the ALCO frequency, ALCO happens every month. However, there's an ALCO subcommittee, which is a Management Committee, which is headed by me, which happens twice a month. So, the ALCO, in that sense, twice, subcommittee. And subcommittee is empowered to take calls, basis on emerging data and this is the movement in the cost and the market competitive there. So, we are pretty agile there. So, technically in 3 times in a month also, there is a movement which is feasible on the basis of ALCO subcommittee decisioning, which is empowered as per ALCO process.

Second on the margin compression, when we are saying 15 to 20 bps, like I called out in the earlier question, it is largely due to what we are saying elevated from a 10 to 15 bps to 15 to 20 bps is because of a reduction in other income due to lower investment income, lower investments in the current year with rate reduction, lower investment income, and also lower cash being carried, because we have toned down our assessment of assignment, what we are going to assign out in the portfolio. See, if the growth overall is projected to be lower, then we don't want to assign out that much portion, because we want to build more capital efficiency.

Those are the 2 factors which is resulting into, while the mitigation in terms of a product mix is still playing out. That is why NIIs we are projecting to hold in line with last year. In fact, I will say that we are being more optimistic on holding the line. That is why we are saying whether cost of fund reduction, coupled with mix shift will hold the NII line. NTI line is impacted because of those 2 factors what we have called out. I hope I have clarified.

Abhijit Tibrewal: Got it, sir. This is clear. Yes, sir. This is absolutely clear. Thank you very much. And sir, I wish you and your team the very best.

Atul Jain: Thank you, Abhijit. Thank you.

Moderator: Thank you. Our next question is from the line of Viral Shah from IIFL Capital. Please go ahead.

Viral Shah: Yes. Hi. Thank you for the opportunity. So, I have couple of questions. One is on the margin. I think it is more of a clarificatory, I would say, question. You mentioned 5 to 10 bps kind of margin compression or NIM compression that is incremental, right, from versus 10 to 15 you had mentioned earlier?

Atul Jain: Yes.

Viral Shah: Okay. Secondly, Atul, you mentioned and the reasons that were mentioned is because of the lower DA income which we have. And secondly, of course, the cash levels which are there. So, over there, just want to understand how does this impact the NIM or the core NII which is there, because that will be forming part of your NTI, right, the non-interest income.

- Atul Jain:** Yes. Viral, I called out specifically NII we are expecting to hold. This is NTI. That is what is even called out specifically in Panel #31, that NII for FY '26 is largely expected to be stable and in line with FY '25.
- However, NIM which is NTI or a NIM as you call it, because NII is expected to be stable. This is a NIM or NTI which is going to be moderated in FY '26, that is exactly after NII these 2 incomes comes after NII. That is what we have...
- Viral Shah:** So, basically the NIM that you are defining is basically the NTI as a percentage of the assets.
- Atul Jain:** Yes.
- Viral Shah:** Not the core interest income and the expense.
- Atul Jain:** That is what we have called out specifically as NII. NII is expected to be stable. That is what we have called out.
- Viral Shah:** Got it. And secondly, over here, Atul, if I look at it, given the rate reduction, there will be also a higher relatively treasury income also, right. So, if we strip that out on a core basis, the NIM as you define or say NTI, that will be slightly lower, right?
- Atul Jain:** We do not have a treasury income line in that sense. The treasury income line is only the cash carry what we carry as extra money to invest in, and that is whether as a LCR requirement of a either T-bill or a G-Sec or money market or mutual fund. So, we do not run a treasury portfolio, Viral, in any manner, because we are an operating company. There is no treasury portfolio of investments what we run. So, there is no treasury...
- Viral Shah:** So, what I meant is basically whatever the cash and the investment book that we have, that will be some gains because of the rate cut, the G-Sec rate reduction, right? The mark to market that would happen.
- Atul Jain:** Because of total investments carried in the end of the quarter is Rs. 3,000 crores which is a mix of a T-bill, G-Sec, money market, mutual funds. And that is not a book which we carry for a long term. We keep on liquidating, because that is a book we run for LCR requirement. We do not run a treasury investment book, so as to say, for gain or a loss. We carry the investments only for the purpose of maintaining LCR ratios, and they keep on getting liquidated or booked basis the cash requirement of the company. There is no permanent investment book in the company.
- Viral Shah:** Got it. And Atul, the second question is I would say more on the growth front. You mentioned, of course, the reasons for say the near term sluggishness which are there, but how confident are you say when we get into FY '27, you will still have I would say there is always a lead lag effect, given that for I would say close to one-and-a-half year, we would have had lower disbursement

growth. How confident are you that FY '27 will go back to say a '24 kind of at least an even growth, versus say not even talking of '25 or '26?

Atul Jain: We are confident as of today for that we will be going back to the growth path by Q3 of the current year itself, because that is what we look at. See our disbursement growths are not that big a problem today because of hyper competitive activity. That is what we said at even Q1 at a retail level also. We grew disbursements versus last year by 12%. But the growth has been absolute flat, because of higher attrition, which is a factor of a more intense competitive pricing, and also rate cut cycle which has happened at an elevated level or you can say 100 bps cut between February to June. The impact of it is we expect to stabilize over next 2-3 months, 4 months or a max at a 5 months, 6 months kind of a level.

There on, as the attrition gets normalized, we expect, or we assess to be back on our normalized growth path. So, it is not even FY '27 what we are talking about. We are talking about in 4-5-6 months as the attrition pressure gets normalized, we should be back on our normal growth path.

Viral Shah: On a disbursement basis you are saying? Book growth for this year will be 21%-23%.

Atul Jain: Disbursements have still grown. Even in the current quarter, we expect the disbursements to grow significantly over last year. However, the AUM is not growing, because AUM growth has remained flattish versus last year, because of a much higher attrition. As attrition stopped growing or attrition gets normalized, the AUM growth we are likely to see back coming to the normalcy.

Viral Shah: Got it. Very clear, Atul. And just last question from my end. Given that we will be say assigning lesser quantum of portfolio in this year, will that also impact at the margin our credit cost, because generally there is provision relief that happens when we assign. Does that kind of say accelerate our movement towards the medium-term credit cost?

Atul Jain: Yes, yes. But that we believe that is a good problem to have, because it is a Stage-1 asset provisioning as long as it is not say, while the credit cost is a factor of a Stage-1 plus Stage-2, stage 3. Rightly called out, if you assign out, you will see a lower credit cost which is actually not a lower credit cost, but it is a good asset provisioning not being there. Non-assignment will mean there will be a higher Stage-1 provisioning, which consequently may look like a higher credit cost to the P&L.

Viral Shah: Got it. Very clear, Atul. Thank you and all the very best.

Atul Jain: Thank you.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from PhillipCapital. Please go ahead.

Shubhranshu Mishra: Hi Atul. Hi Gaurav. Good evening.

Atul Jain: Hi Shubhranshu.

Shubhranshu Mishra: So, 2 or 3 questions. The first one is what would be our 65%-70% of the HL portfolio as a yield or what would be that number? I understand that we are not giving the lowest rate to everyone.

Second is that you did speak about some degree of slowness in the real estate.

Atul Jain: I could not get the question right. Can you clarify what do you mean when you said 65%-70%.

Shubhranshu Mishra: So, a bulk of our portfolio, whatever that number is, let's say, 50% 60% what would be that blended yield, not on the entire portfolio. What is basically our comfort yield or mid-80% range for our HL portfolio?

Gaurav Kalani: So, hi, Shubhranshu, Gaurav here. Home loan overall would be around 9% at a portfolio level.

Atul Jain: Shubhranshu, it is difficult to cut a portfolio at a 50% level and say that we are looking at the mix of the overall portfolio.

Shubhranshu Mishra: Overall portfolio, so HL at a portfolio yield is...

Gaurav Kalani: Around 9%.

Atul Jain: Around 9% as of 30 June, which is the number which is given.

Shubhranshu Mishra: Right, and in that 55% that you give out, what is pure HL and what is top-up?

Atul Jain: See pure HL has to be above 50% as per the regulatory requirement. The exact number would be IHL number is, Neeraj on 30 June?

Gaurav Kalani: 50. 9%.

Atul Jain: 50. 9%.

Gaurav Kalani: 50.9%.

Atul Jain: 50.9% is a pure IHL portion out of 55.8%. Balance would be not only top-up it will also be part of a fee LAN or insurance.

Gaurav Kalani: 9% is mix of both. So, this 9% yield is of both home loan plus top-up included.

Shubhranshu Mishra: Right. So, what is the pure home loan yield?

Atul Jain: It will be difficult to segregate, Shubhranshu, but it won't be materially different, because generally if you are talking about out of a 5% other than IHL portion, which is a pure home loan, there is a portion would be your cross sell LAN or the fee LAN. So, top-up LAN would be close to 3%-3.5% of the portfolio, whatever yield. Normally top-up loans come at 100 bps higher yield or equivalent to LAP yield approximately.

But at an overall home loan it is not going to push up the yield too much. 3% of the book is not going to drive 50% book to a significant level. But at a broad level, 100% bps is a differential between top-up price to the pure home loan price segregated.

Shubhranshu Mishra: Right. And there is a lot of investor chatter around regulation around top-ups. Are we facing any regulatory diktats or pressure from regulators to reduce the top-up or let go of the top-up entirely?

Atul Jain: Regulators have been guiding over the last 1-1.5 years, which through the normal newspaper or there to be mindful of the top-up and that is where they had increased the risk weight around 1 year back. Apart from that there has not been any specific communication at least not to us, because like we called out the top-up is not a very significant part of our business.

So, we at least have never received any specific conversation or have been part of a chat on a specific basis on a top-up applicability. But overall, at a systemic level, Reserve Bank of India had earlier guided all companies, all NBFCs, HFCs, banks to be cautious about top-up, and that is where they have increased the risk weight on the top-up loans from 100% to 125%. Apart from that we have not heard any other chatter recently or definitely not had any specific conversation with any regulator or supervisor, which is NHB in this case.

Shubhranshu Mishra: Right. Given the fact that there is a softness in the real estate market, and which has been rightly called out, do we foresee any pricing wars from other HFCs, PSU banks, private banks? Is there a possibility of this leading to mispricing of home loans going forward in the next 5-6 quarters?

Atul Jain: I missed Shubhranshu the first line of your question. Second line, I understood clearly you are saying mispricing, but in what context, so that I am able to...

Shubhranshu Mishra: Softness in the real estate market, will this lead to mispricing by almost every player, PSU banks, private banks, HFC?

Atul Jain: So, softness of a market always results into more competitive intensity what we are looking at, because if you look at credit growth in the economy overall it is much softer than what it should be.

There is already a reflection in the pricing competitiveness or the price offering in the home loan. There is a reflection of already a softer overall credit growth there, which is a normal scenario, which is an industry cycle.

If there is any more softness in the demand can there be more pricing pressure? Yes, but it is an industry phenomenon, which is a normal cyclical phenomenon.

Shubhranshu Mishra: So, there can be mispricing, if there is more softness?

Atul Jain: I am stopping short of saying that we believe that the current pricing is also not fully appropriate. That is a function of current softness of a demand for credit overall. Because if you look at the overall credit growth in the system that is lower, which is resulting into a bit of in our assessment, much lower pricing for the Home Loan portfolio in the market. I will not call it a mispricing, but I will say the pricing in the home loans are much more softer in our assessment, because of the overall softness in the demand for credit in the bank, in the system.

Shubhranshu Mishra: Right. And just one last question on near prime and Affordable. What about the demand there? And instead of building it out organically, can we think of doing co-lending with smaller HFCs?

Atul Jain: Shubhranshu, we generally prefer to build organically, and that is what we will build organically. Co-lending is not fully evolved, because whatever we generally see co-lending, which is a CLM 2 by the banks and the HFCs, we as a HFC can't do CLM 2. We have to do CLM 1 only, which has not moved significantly for at least for us as mortgage space, which is a heavier underwritten product in the industry overall. So, we can operate that, but we don't think there is much scope to, very high scope there to grow. So, we will build organically only, that is what we are looking to build organically.

Shubhranshu Mishra: And the demand in those segments, near prime and Affordable?

Atul Jain: Demand remains robust, there is enough market space and since in any case we have started only, so there is, we don't feel constrained of the market demand. We are moving cautiously because this is a new area which we ventured into 14-15 months back, but we are in our assessment progressing well.

Shubhranshu Mishra: This was very helpful, Atul and Gaurav. Thank you so much. Best of luck for ensuing quarters.

Atul Jain: Thanks Shubhranshu.

Moderator: Thank you. We have Renish from ICICI Securities with the next question. Please go ahead.

Renish: Yes, hi sir. And congratulations on a good set of numbers. Just 2 things from my side, one on this LAP piece. So, while this portfolio has been growing at a decent pace, but when we look at the average ticket size, the same has gone up by almost 20% over the last 2-3 quarters from 6 odd million in Q2 FY '25 to 7.2 million by Q1, which essentially means that the bulk of the growth is actually driven by the ticket size increase, and maybe indicating subdued volume growth. So, just wanted to understand, what are the probable reasons for low volume? If it is linked to the cash flow problem or something else?

Atul Jain:

So, Renish, the average ticket size, because we remain a player in the prime mortgage, whether that is in a LAP or a home loan, and barring the new vertical in near prime what we have started. So, the ticket size can swing between, because we remain largely in the ticket sizes of 40-50 lakh to around Rs. 2 to Rs. 2.5 crores to Rs. 3 crores is the ticket size, where we operate.. So, the average ticket size movement is for that.

One reason for LAP ATS movement is also we used to earlier do in a way what we call Affordable LAP also to some extent as a part of our rural vertical, which we have stopped doing in last 6-7 months. Now that volume in terms of a quantum was not very high, but number of cases would have been bringing down the average ticket size at a company level.

Now that we stopped doing around 6-9 months back as we started pressing pedal on Affordable home loan, because we want to build first there in largely Home Loan portfolio, then maybe restart that smaller ticket lap. I am not calling it a micro lap, because micro-LAP has different connotations in terms of yields. We were never in that 24-25 kind of segment. But we were doing smaller ticket LAPs in the upcountry markets earlier, which we are not doing from last 6-9 months. That can be one factor. But value-wise, that business was never material as a balance sheet.

Renish:

Got it. And if I may ask, what is the strategic decision behind moving to a higher ticket size?

Atul Jain:

We have not moved to higher ticket size; we remain in that segment. There is a market movement as well, Renish. Overall, if you look at any product, whether it is a home loan or a LAP, in the market there is a demand for largely a more higher ticket, which is we are a function of a market, and since we operate in a prime space, that is the ticket size movement.

The discontinuing or not doing in up-country, smaller ticket LAP, which we were doing, like I said, that that was because we are now, as we re-pivoted and we moved the business of Affordable and near prime into the new SBU as we set up last year, we assessed that initially first we have to focus much more on building a Home Loan channel. We being an HFC also, we require to focus on HL, and then we said that later on we will build the smaller ticket LAP business in the SBU as we grow further. There is no strategy behind it. It is just an assessment at that point of time as we are re-oriented or re-calibrating the entire Affordable or near prime business as an SBU, what we should prioritize.

Renish:

Got it. Got it. This is very helpful. My second question is on the attrition rate. The BT out rate. Obviously, this quarter it has gone up, but when we look at and you also did mention about increasing competition. Now, let's say if in next 4 to 5 months, if this BT out rate further increases, do you feel any downside risk to your already revised growth guidance in FY '26?

Atul Jain:

In our assessment, we have factored in the downward risk what we are seeing as of today and we have assessed it in our way on a conservative manner. Conservative manners means that we have assessed the situation to remain elevated for next 4 to 5 months, which is a factoring in the

growth projection. So, we don't see further risk there. Until unless there is another shake up in the market. we don't see that additional 50 bps rate cut coming in, but we are not the one who decides that.

Renish: Correct.

Atul Jain: That I can't predict. That is not factored in, but basis whatever we have seen, we believe that on a conservative factor in the max negative side, what we can have.

Renish: Got it. Let's say, just a follow up on that, so we are not factoring any further rate cut in next 4 to 5 months when we might have done our stress test on BT out?

Atul Jain: Yes, we are factoring in one more rate cut for our stress test scenario over 25 bps, additionally coming in during the year.

Renish: Got it, got it. This is very helpful, sir. Thank you and best of luck.

Atul Jain: Thank you.

Moderator: Thank you. Ladies and gentlemen, in order that the Management is able to address questions from all participants in the queue, we request you to please restrict yourselves to 2 questions only. You may rejoin the queue if you have further question. Our next question comes from the line of Piran Engineer from CLSA. Please go ahead

Piran Engineer: Yes. Hi, team. Congrats on the quarter. And thanks for taking my question. Just a follow-up or maybe it's been partially discussed, so firstly the gap between our medium-term growth of 25%, and say near term of 20-21, how much of that is attributed to just a weaker real estate sector?

Atul Jain: So, the difference is 24-26 to 21-23, which is a differential, let us say a 300 bps kind of a differential, not 4 and 5. It is largely to do with the higher competitive, lower pricing, higher attrition, less to do with the lower demand.

I called out in earlier question also that because of given our relative size being slower, lower demand or a stagnation of demand would not have led to our revising the growth projections. It is the competitive pricing activity, and resulting into higher attrition which is resulting into our guiding for a 300-bps assessment downward in the current condition.

Piran Engineer: But then that, Atul, leads me to the question, what will change in 6 months? Because when we say by third quarter everything will be okay.

Atul Jain: What happens is there is always a much higher attrition or a much higher movement or a disruption in the market when the rate cut happens, and there is pressure which gets built up. But over a period, it disappears and then it gets normalized. That's a normal scenario. That's what we

are saying that if there is no further shock in the system of a very high rate cut or more than expected rate movements what is there, we should expect it to normalize in the next 4-5 months.

Piran Engineer: No, so what we are basically saying is banks get aggressive when rates are cut. There is a sort of pent-up aggression, if I can use that word.

Atul Jain: The moment a portfolio is much higher for an extremely rate-sensitive customer, the movement is much faster or much bigger. Later on, because in any case, we are also passing on the portfolio, then the customers are more stable as we go and the portfolio also keeps on substituting. If there was a customer at a higher rate that keeps on going out, there is a newer customer which is coming in which is at a lower rate. So, here, rate tends to get normalized in 4-5 months.

It's nothing to do with the competitive banks being more active at the initial level than not being active. It's a phenomenon in terms of a more rate sensitive or a more rate seeker customer moving out faster, and the substitution of a customer which is coming in at a new pricing. The ratio of a new priced customer going up versus the customers going out. It's a mathematical formula.

Piran Engineer: So, basically what you are saying is whoever has to leave will leave immediately, and those who have stayed back stay back with NBFC or HFC.

Atul Jain: There is always an exit which keeps on happening. There is a normal scenario. The elevated elevations will get normalized in 4-5 months scenario. That is what I am calling out.

Piran Engineer: Got it. Okay. That makes sense. Fair enough. And just secondly, for Gaurav, over the last one year, rates were fairly high, but we actually reduced our share of bank borrowings and borrowed more from NCDs. It's a bit counterintuitive, because I would have expected when rates are high, keep more floating rate borrowing, so that we benefit once rates start getting cut. But it's actually been the other way around. So, what am I missing here?

Gaurav Kalani: So, basically we look at incremental borrowing rates between NCD and bank lines at the time we are borrowing. So, since the price differential has been better on the NCD side, while we have been borrowing, after factoring in the reductions which may come because banks get repriced, basis MCLR movements which we have not seen much happening. So, we factor all that in, and looking at those movements versus what acquisition level we are getting pricing on NCD versus bank lines is what we take as a call at that point in time. As of now, we've been seeing that the differential has been beneficial more towards the NCD side. That's why we've been focusing more on NCD borrowings.

Piran Engineer: And what would that differential be say today, a fresh bank line from a PSU bank?

Gaurav Kalani: This quarter differential would have been around 20 basis points.

Piran Engineer: 20 basis points. Okay, that's it from my end. Thank you, and wish you all the best.

- Moderator:** Thank you. Our next question is from the line of Abhishek Murarka from HSBC. Please go ahead.
- Abhishek Murarka, your line has been unmuted. You may proceed with your question.
- Abhishek Murarka:** Yes, thanks. So, thanks for taking my question. In your Home Loan book, what is the percentage or absolute amount of Affordable and near prime, if you can share that?
- Atul Jain:** So, Abhishek, in our Home Loan book, the ratio would be around 16%, which is a non-prime book, and 84% would be the prime and near prime book. So, we segregate between prime and near prime on one side and non-prime and Affordable on one side. 84-16 would be the approximate mix in the book between prime, near prime.
- Because prime, near prime is a bit of an overlap, that's why there is a categorization we do non-prime, affordable and near-prime, prime. Prime, near prime would be around 84% and 16%. 84% and 16%.
- Abhishek?
- Moderator:** Thank you. Sir the current participant seems to have dropped from the queue. We will take that as our last question for today, ladies and gentlemen. I would now like to hand the conference over to Mr. Ajit Kumar for closing comments. Over to you, sir.
- Ajit Kumar:** Thank you all for joining the call today and thank you to the Management team of Bajaj Housing Finance for giving us the opportunity to host this call. Any closing remarks, Atul sir?
- Atul Jain:** No. Thank you very much for all the participants for patiently listening and thank you, Ajit, once again for giving us the opportunity, and by hosting us. Thank you all.
- Moderator:** Thank you. On behalf of Bajaj Housing Finance Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.