



“Bajaj Housing Finance Limited
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- Moderator:** Ladies and gentlemen, good day and welcome to Bajaj Housing Finance Limited Q2 FY '26 Earnings Conference Call hosted by Axis Capital Limited. As a reminder, all participant 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 star then zero on your touch-tone phone. Please note that this conference is being recorded.
- I now hand the conference over to Mr. Praveen Agarwal from Axis Capital Limited. Thank you and over to you, Mr. Agarwal.
- Praveen Agarwal:** Thank you, Nirav. Good evening, everyone, and welcome to this earnings call of Bajaj Housing Finance. Today with us, we have the management team led by Mr. Atul Jain. Along with him, we have Mr. Gaurav Kalani, CFO and other senior members of the team. I would request Mr. Atul to share his initial remarks post which we will open the floor for Q&A. Over to you, sir.
- Atul Jain:** Thank you, Praveen and the Axis team for hosting this call. Good evening to all the participants. I am Atul Jain. I have with me all senior colleagues of Bajaj Housing Finance, Gaurav, Jasminder, Vipin, Pawan, Dushyant, Niraj and Gagan and Vijay. I will take 15-20 minutes first to cover important panels of Investor deck which has been uploaded on our website and afterwards we will have questions and answers.
- First panel I would like to take, is panel number 3. Another stable quarter for AUM, profitability and credit cost. This was amidst heightened competitive intensity as well as decreasing interest rate scenario. AUM grew by 24% on Y-o-Y basis and stood at INR1,26,749 crores as of 30th September. PAT increased by 18% with annualized ROA at 2.3%. Asset quality remained healthy with improvement in GNPA at 0.26% and NNPA at 0.12% and annualized credit cost at 18 bps.
- Operating efficiency also improved during the quarter and opex to NTI stood at 19.6% against 20.5% in Q2 of last year. Geographical coverage of BHFL now spans across 176 locations with network of 220 branches. Annualized ROE for the quarter came in at 12.2%. Capital position with CAR at 26.12% remained healthy and PBC criteria which is a regulatory criteria was at 61.21%, against a regulatory threshold of 60%.
- I am moving to the next panel. I have already covered AUM growth which grew 24% but when we look at a product level AUM, home loans grew by 19%, LAP by 29%, LRD by 35% and DF by 25%. AUM for the quarter in absolute terms increased by INR6,329 crores. This was against INR5,497 which is close to INR5,500 crores in Q2 FY '25.

Portfolio composition also continued to remain well diversified with home loans at 55%, LAP at 10% and LRD in excess of 21% and DF at sub 12%. Disbursements for the quarter grew by 32% from INR12,000 crores in Q2 FY '25 to close to INR16,000 crores, i.e. INR15,914 crores in Q2 FY '26.

I am moving to the next panel. Cost of funds improved during the quarter and stood at 7.4% having 50 bps reduction on YOY basis against 7.9% in Q2 FY '25. On sequential basis, cost of funds saw a reduction of 34 bps on account of policy rate transmission on existing borrowing as well as incremental borrowing at lower rate. Borrowing mix remained well diversified with higher mix of money market borrowing.

Overall borrowing mix was 54% through money market instrument, 37% through bank borrowing and 9% of NHB refinance. Gross spread was flat for the quarter at 1.9% against 1.9% of Q2 FY '25. However, on a sequential basis, gross spread was 10 bps higher due to higher flow-through benefit on cost of funds versus movement across portfolio rate. However, this is likely to get normalized going forward, basis some pass-through in the portfolios has happened due to October '25 and with expectation of another rate cut in December as the markets are predicting.

Net interest margin is holding at 4% on a sequential basis while at a YOY basis it dropped by 10 bps. I have already talked about opex to NTI in earlier panel which has dropped to 19.6% in Q2. Digital initiatives continue to further improve with our E-agreement penetration at 94% and online customer onboarding penetration at 93% in September '25.

I am moving to panel 6. Asset quality remained healthy during the quarter with improvement in GNPA by 4 bps to 26 bps in Q2 FY '26 and also NNPA by 1 bps at 12 bps. Annualized credit costs stood at 18 bps in Q2 FY '26 against 2 bps in Q2 FY '25. The normalized credit costs because in Q2 FY '25, in fact in H1 FY '25 we had overlay release which we had created during COVID period. If we would exclude the overlay release in Q2 FY '25 the annualized credit costs would have been 14 bps.

In terms of profitability, PAT for the quarter grew by 18% from INR546 crores in Q2 FY '25 to 643 crores in Q2 FY '26. Annualized ROA at 2.3% against 2.5% in Q2 FY '25 and annualized ROE at 12.2% against 13.3%. The ROE has been lower in the current year because of three factors. One, capital raise done in FY '25, second, there was no overlay release in the current year against last year overlay release and also, current year we have lower income from derecognized loans versus last year. Sum total from net profits, net worth has further increased to INR21,170 crores as of 30th September '25.

I'm now straight jumping to panel number 18. Majority of quarterly metrics have been discussed. Net interest income grew by 34% in Q2 FY '26 while the net total income grew by 22% owing to lower income on fair value changes as well as lower assignment income. That was what I was

calling out earlier because of a lower assignment income, the ROE was lower and consequently that's where net total income is looking at a lower growth at 22%.

PBT and PAT grew both at 18%. In terms of half yearly financials, net total income increased by 24% during H1 FY '26. Operating expenses grew 21% and pre-provisioning operating profit grew 24%. Overall, PAT for H1 has grown by 19%.

Opex to NTI has improved by 40 bps for H1 versus H1 FY '25. Credit cost for H1 has been 17 bps against 4 bps in H1 FY '25 but that was due to overlay release of INR50 crores in first half of the year at a cumulative level. INR25-INR25 crores in each of the quarter in the last year. Annualized ROA 2.3% and ROE of 11.9%.

Moving to panel 20. Portfolio yield moderated by 22 bps on sequential basis and 60 bps on a YOY basis at 9.3% in Q2 FY '26. Cost of funds dropped by 34 bps on sequential basis and 50 bps on a YOY basis to 7.4%. Overall gross spread for the quarter inched up by 10 bps on sequential basis. However, it was flat versus last year basis. Opex to NTI we have talked about 90 bps reduction on YOY basis from Q2 to Q2. NIM moderation of 10 bps on a year-on-year basis largely led by a drop in income from assignment and other income. Asset quality and profitability matrix have already been covered.

I'll move to panel 21 on the borrowing mix. Borrowing mix continues to remain well diversified supported by borrowing relationship with 17 banks. Mix of NCD share in the overall borrowing mix further increased by 2.6% on sequential basis while CP mix increased by 3.1% offsetting moderation in bank borrowing share by 4.7% and NHB refinance by 1%. This was due to incremental borrowing largely from money market instruments considering the cost benefit.

Going to panel 24, depiction of the portfolio mix between products, this remains within our guided range while on sequential basis LRD improved by 1.1%. Home loans deteriorated by 70 bps and LAP by 20 bps and developer finance by 10 bps.

Moving to panel 29, on sequential basis stage 1 assets have improved by 3 bps to 99.39% in Q2 FY '26. Stage 2 were flat at 34 bps. GNPA improved by 4 bps to 26 bps and NPA by 1 bps to 12 bps. Provisioning coverage remained healthy at close to 56% in line with the previous quarter.

I'll jump to panel number 31 which is the last panel I would want to cover, Product level asset quality. Provisioning coverage ratio remains in excess of 50% across product line. Home loans GNPA improved by 4 bps to 32 bps in Q2, 2 bps in LAP at 59 bps and DF GNPA remained flat. Overall NPA improvement as called out by 1 bps.

This is what I would have wanted to share from my end for the quarter. Happy to take questions between me and the management team.

Moderator:

Thank you very much. We'll now begin with the question and answer session. The first question is from the line of Shubhranshu Mishra from PhilipCapital. Please go ahead.

Shubhranshu Mishra: Hi Atul, hi Gaurav, good evening. So, this competition especially from PSU banks is something cyclical with rate cuts, right? So how are we building a strategy

Moderator: Hi, can you speak a little louder please?

Shubhranshu Mishra: Hi, can you hear me now?

Management: Yes, we can hear you now.

Shubhranshu Mishra: Hi Atul, hi Gaurav. So, this competition from PSU banks is something which is cyclical which happens every rate cut cycle. So how are we building a strategy so that we can circumvent this especially because we operate in the prime home loan segment. That's question number one.

Second is that the home loans have reduced to roughly around 55% of the portfolio. We also used to do top up. So, what is the pure home loan and what is the top up in that 55%? And if we can spell out the yields on each of the categories home loan, LAP, LRD and developer finance?

Atul Jain: Thanks Shubhranshu. You asked three questions. The first question is the competition from PSU. We take in prime home loan now the competition is going to be the feature rather than the novelty. You called out saying that the competition heats up during the declining interest rate scenario. But if we are looking at last two and a half, two to three years the intense competition is the norm and as we make our plan for the future, we are now taking it as a feature rather than an aberration which will go down.

Now, as a prime player, as players who are focused on the prime mortgages, we need to modify our strategies accordingly to be able to compete through the market because if you look at our disbursement growth, it had been far ahead of the industry growth. Industry home loan disbursement growth YOY had been in the range of 6%-7%. This is whatever Bureau data we can access at a broad level. The numbers are not yet closed. While our disbursement growth in home loan also had been far higher than the industry disbursal growth.

We are here to compete. We keep on modifying our strategy. We called out in last quarter saying that deepening the presence and increasing the width of our customer segmentation, deepening our presence in each micro market and the market, is the strategy we follow which is the strategy we will continue to follow to continue to grow in the home loan despite the competition from the public sector banks.

You asked a question on the HL contribution. 55% is in the HL book. The IHL contribution which requires, which is a regulatory PBC criteria, we were at 50.45% as of 30th September. The rest of it was either a top up or the fee LAN or the insurance LAN which is not considered as an individual home loan. So, the regulatory criteria is 50% on that.

On the yield product wise, the yield product wise at a portfolio IRR at HL had been at 8.6%, LAP at 10.3%, LRD at close to 8.1%-8.2%, developer finance close to 11.5%. At an aggregate level, we come at 9.26% is the yield what we come at the portfolio. Now HL is also a mix of a prime and a non-prime but I am telling you at an aggregate level.

- Shubhranshu Mishra:** Just if I can squeeze in one last question, you did mention about deepening the presence into each micro market. So, are we also increasing our payouts to various developers or various connectors or large national DSAs?
- Atul Jain:** Our COA remains flattish because the payouts are not the only, because our home loan market is largely commoditized, most of the payout structures are also common. So, it is not likely that by increasing the payouts you can increase the market share. It is by making more product nuanced which is catering to the market and having a deeper presence in each of the market is the approach we take.
- Increasing payout will not result into the higher market share is our assessment and which is not what we follow. We remain absolutely in line with the payouts what is offered by the market or leading player and there is no increase in COA over last year or over last quarter.
- Shubhranshu Mishra:** I'll come back in the queue. Best of luck for the further quarters
- Moderator:** Thank you. Next question is from Viral Shah from IIFL Capital. Please go ahead.
- Viral Shah:** Hi Atul and Gaurav and team. Thanks for the opportunity and congrats on a good set of numbers. Atul, I wanted to know, so I am looking at the guidance that you have put out on the panel 16, it remains unchanged primarily on the margin front. Now for the first half of this year or the two quarters, we have kind of delivered a flat-ish margin, so we are guiding for a 15-20 basis points kind of a decline for the full year perspective.
- Are we expecting such a sharp decline in the second half or just more of a continuation of the guidance and we are likely to basically beat these numbers?
- Atul Jain:** On margins, I will request Gaurav to address this.
- Gaurav Kalani:** On a full year basis, we are expecting to be in this guidance range only because of the compression we are seeing driven by attrition pressure across the portfolio especially in the home loan side, also in the construction finance side. That attrition pressure followed with another rate cut expectation in December is what we are factoring in and that's where we are looking at year-on-year level this kind of a compression which we have guided for.
- Atul Jain:** So as of today, our estimate remains in this range. However, as the time shifts up, we are able to do better, that is where we look at. But our estimates as of today stand at the same what we have guided for.
- Viral Shah:** Gaurav, just a bit on that. I think what you mentioned is basically an expectation of another 25 bps kind of a rate cut in this fiscal. I think last quarter when we gave that number, I don't think we were baking in that kind of expectation. Does it mean that on an underlying basis we are probably despite a 125 bps rate cut instead of 100 bps, we are likely to kind of say beat the numbers what we had guided for in the previous quarter? Would that be the right way to look at it?

- Atul Jain:** So, our guidance is not just -- there has been some improvement in the performance metric in terms of a growth in disbursal because we have not estimated that kind of a growth in disbursals what has happened. However, on the negative side with the expectation of another rate cut and when we look at the benefit in the COF what we will get passed on versus the rate cut impact which may be there in the market.
- It's a bit of an estimation because we remain a market focused business. The pass-through in the market will be what we will be guided by. That's where it's an estimate. So, you can say that we in that sense, if last quarter we were projecting these numbers without a rate cut, at the end of this quarter we are projecting the same margins with one rate cut baked in, in the numbers. To that extent you can quantify it, saying that our improvement in our confidence on the margins over one quarter.
- Gaurav Kalani:** And here on, the benefit on cost of fund would be marginal versus that if the portfolio attrition pressure continues to remain that way, we may see the pressure on the yields continuing. So that's where we are continuing with the guidance. Predominant part of the COF benefit is already passed through. Now we may have around 10 basis points of further benefit which we may see through the balance part of the year considering the rate cut.
- Viral Shah:** So basically, considering the rate cut you expect another only 10 bps kind of a decline in cost of funds?
- Gaurav Kalani:** Yes. We are expecting in December to come in and then that to kick in, on the cost of fund Q3 would have gone, Q4 is where we will see a balance. So that's where.
- Viral Shah:** And just from a mathematical standpoint, Gaurav, this number if I have to say, take in a 10 or 15 basis points we anticipate probably
- Gaurav Kalani:** Sorry, we lost your voice. Can you repeat the question?
- Viral Shah:** I'm just saying that if I look at now this numbers and say if I assume, say a 10 or 15 bps kind of a decline for the full year, with this revised kind of market dynamics, is it right to say that in the second half we may actually see more like say 20 to 25 bps decline from the first half or say the 2Q levels?
- Gaurav Kalani:** Not very clear Viral but it has both factors on yield as well as cost of fund. I have explained cost of fund. On the yields because of both reasons on attrition as well as new acquisition coming at lower price with one other rate cut we are expecting and with the acquisition challenges which we are seeing in the market on the public sector banks being aggressive etc, we have factored in a certain yield compression on the overall portfolio and that's where we are guiding for these numbers.
- Atul Jain:** It's a combination of Viral, estimated compression in the acquisition pricing to the yield compression and reducing out of that the COF benefit which will come.
- Viral Shah:** Got it very clear. Do I have a chance for one more question?

Atul Jain: Sure.

Viral Shah: Can you just also spell out...

Gaurav Kalani: Viral we lost you in between again

Viral Shah: Hello. Am I audible now?

Atul Jain: Yes.

Viral Shah: I am saying, can you give an update on what is the traction that we are getting on the near prime and affordable segment and like what's the size of it? How many locations we are? And what are the customer segments primarily on the yield front that we are targeting?

Atul Jain: Just to give an update on the SBU what we started because we had started operating in the near prime and affordable segment before we set up an SBU but we set up a dedicated SBU in the last year. The business is doing well in terms of the milestones what we laid down for this business. It is ahead of the milestones what we thought.

Now it operates from top 36 markets with an average size of a range of INR40-INR60 lakhs, while affordable business within that we operate across these markets outskirts as well as in some tier 4 and rural markets as well where ATS is in range of INR15-INR35 lakhs. Currently we are now acquiring close to INR250 odd crores per month business in this line and expecting to rapidly scale further.

Like we said that it is ahead of our expectations and ahead where we would have thought it would reach there. As incrementally it goes forward, we are looking at this to be growing at a much faster pace during next year as well. The reason we have grown it a bit slower than we could have grown, our estimate also was lower because this has different nuances compared to the prime retail businesses

So that's where we went slow during initial setup but based on our experience, we feel confident and now we are scaling it up faster and we will try to scale it up much higher during the next year

Viral Shah: Thank you, Atul. All the very best

Moderator: Thank you. Next question is from the line of Siraj Khan from Ascendancy Capital. Please go ahead.

Siraj Khan: Thank you for the opportunity and a good set of numbers. First few statistics Can you say the one plus DPD number

Atul Jain: Sorry?

Siraj Khan: 1 plus DPD

- Atul Jain:** I am not able to hear you clearly.
- Siraj Khan:** 1 plus DPD
- Atul Jain:** 1 plus DPD. I don't think 1 plus DPD is the number. We give 30 DPD numbers, 1 DPD you are asking for all customers who have bounced. That is not a metric, Siraj. So, this is a 30 DPD metric which comes, customer comes to the stage 2 from stage 1. So, stage 1 remains 0 to 29 DPD which is a standard definition and that is a consistent definition which is used across industry or across the quarters what we have been publishing the data.
- Stage 2 remains which is 30 DPD to 89 DPD is 34 bps which remains stable and 90 DPD and above is 26 bps. So, 99.39% is 0 to 29 which is stage 1, that is if you have to call it and if you look at last 8 quarters it is in range between 99.31, 93, 93, 97. In fact if I look at it towards the better there, we have been at 99.39% in 2-3 quarters We have been in between 99.31% to 99.39% in last 8 to 10 quarters.
- Siraj Khan:** Understood. So sir another question what I wanted was kind of partly answered in the previous participant's question, was on the affordable and near prime business? But what I want to understand with respect to the slowing, and we are saying that we are taking it slow. So is this because we are taking it slow as a deliberate decision to understand the customer in that segment? Or are we seeing any demand or specific asset quality related issues?
- Because some of the players that are in this segment of the affordable housing and near prime they are seeing some asset quality issues in the lower ticket size. Although our ticket size is not as low as these other players but since we are in that range, in that ballpark range, what is your view and assessment on that segment?
- Atul Jain:** So, this is not leading from any view on the asset quality or any stress what we are seeing or the demand compression. It is just that we started this business 15-18 months, as practice of the risk management will do, we wanted to take it slow.
- We are also onboarding the entire team, this is our entire grounds up build that also takes time for us to build. And like I said in the previous question now we feel confident of trying to rapidly scale it up, that is where we are and we expect this business to be much more ahead next year
- Siraj Khan:** Understood. And with respect to the fall in the derecognition income, the assignment income. So, this was by design or by default. I was wanting to understand, is this like a one off or will we see this as kind of a stabilized number in the going ahead quarter?
- Atul Jain:** Siraj, when we said the yearly guidance during the last quarter, we said assignment we do for two reasons. One reason is, assignment is the treasury strategy. We are excess of capital, we have excess of our capital and we took a conscious decision in the current year to not do assignment for treasury strategy because as a treasury as a means of fund, otherwise we had been normally falling 12%-13% of our assets assigned out to our strategy, even as a treasury strategy for our ALM match.

But if you look at our ALM, we went long last year. So, our ALM again, even if it is a five year bucket plus, it is quite comfortable even under borrowed asset. So, the need, conscious decision was to not pursue for treasury ALM match assignment in the current year.

The second reason for assignment for us, is always that if we are falling short of a PBC because if there is more opportunity to acquire non-HL assets and if we have the ability to assign them out, we like to take the opportunity to assign out the assets, maintaining PBC, as well as in the process having a higher ALM where the benefit flows through.

That we will be open even in the second half of the year depending upon, if we have an ability to mobilize more non-HL business based on our ability to assign them. So, first part of treasury is a conscious strategy to run it down that's why you will see much lesser in Q1 and Q2 and we called out last year, in the assessment also we have said that NTI is expected to be lower because of this, but if it is Q3 and Q4, this will depend upon requirement.

If there is a requirement to assign out, we will do an assignment out, we can look at a higher income, the income can be higher. That's where we are. I hope I have answered your question

Siraj Khan: Yes, thank you.

Moderator: Thank you. Next question is from Rahil Shah from HSBC. Please go ahead

Rahil Shah: Thank you for the opportunity. I have a question around the competition and just wanted to understand more about it. What would be your BT in or out rate, in the overall home loan segment? And second, on the affordable housing side, what would be your BT in and also your AUM size?

Atul Jain: So, Rahil at an overall level, because we don't measure it in the segment wise BT in and BT out. At an overall home loan acquisition for the company, our BT in is 15% approximately of our overall HL acquisition, which is perfectly in line with the industry. Industry is 16-17% is the BT in, ours is 15%. At a segment level we don't break it which segment is there but aggregate level, since it is 15%, I think it will be largely for all the segments which is there.

Rahil Shah: And BT out?

Atul Jain: BT out is a factor of attrition, which is now attrition -- at an aggregate level if I look at it, our repayment rates in the Q2 FY '26 looked at 27%-28%. At an aggregate level, it's a combination of various products. At a home loan level, it is a 21%-22% kind of an annualized attrition, what we are seeing. 21%-22% which is an elevated attrition because of the pricing in the market.

My guess is, because it's a part of both, which is customer paying on its own as well, but that would be a 20%-30% part. So, at a 20% annualized attrition I can look at maybe 14%-15% as a BT out rate, from our book. But both BT in and BT out are different metrics. So, percentage wise, it may look at 15%, I request you not to assume both are the same.

Because 15% is on a different number which is on our HL portfolio. BT in we are talking about through the door acquisition and broadly industry level 16%-17% is the acquisition. BT out at an industry level, I don't have a rightful number available because banks do not generally have a detailed HL or a focused metrics available.

Rahil Shah: Sir, in this 21%-22% how this would compare to last year or two years back? Just wanted to understand the pace for the increase...

Atul Jain: Last year it would have been in the range of 15%-16%.

Rahil Shah: So, from 15%-16% it's now upwards of 20%-22% and you would say mostly this would be going to PSU banks or even large private banks would be something who would be part of...

Atul Jain: Largely PSU.

Rahil Shah: Okay got it. And sir, what would be your AUM in affordable housing?

Atul Jain: We track AUM in two contexts, one is prime and non-prime. Non-prime includes affordable. So, the balance sheet mix in home loan today would be 86:14, 86 will be prime and 14 would be non-prime including affordable..

Rahil Shah: Thank you so much.

Moderator: Next follow up question is from the line of Siraj Khan from Ascendancy Capital. Please go ahead.

Siraj Khan: Yes. Thank you for the follow up. Hope I am audible? First question was with respect to a follow-up on was with the NII plus fee income. The fee income has gone up. So, are we seeing more cross-selling and will that be a slight driver for the NIM plus fee? Not the NIM, but the NIM plus fee will drive higher with the fee and commission income being ramped up? Is that a conscious strategy or will it be stable?

Gaurav Kalani: Broadly, this is insurance income, which is driving that number apart from other charges, etc., which is like bounce charges, foreclosure charges, switch charges, etc. But predominant is the insurance income. It grows in line with the growth in business apart from the non-prime business, which will have higher penetration. But otherwise, overall, it will remain in line with the growth of business.

Siraj Khan: Okay, because like on a YOY basis, that number seems quite high. So, I thought maybe something else is also driving. Secondly, with respect to the affordable business, again, affordable in the near-prime case...

Atul Jain: Just to clarify, on a YOY basis, it is looking at a double. But if you look at a Q4 FY '25, I think Q2 FY '25 was a bit lower. We have to go back why it was much lower and look at from Q4 FY '25 to Q2 FY '26, the number is not that different.

- Siraj Khan:** Understood, understood. And again, on the SBU, so what will be the yield difference over that book from our normal book? And as we see that the rates would go down, and one of our recently listed peers said that we try to use our cost-of-borrowing advantage and try to bring in customers and lock them in our book at a lower rate, kind of saying that they'll undercut the competition.
- So, with that point, how do you see that difference in yield over both the books compressing? And will that materially improve the NIMS and the yield of the book? Is that possible?
- Atul Jain:** See, each acquisition for each segment is at a point of time driven by the competitive intensity and also what market is available. We don't try to price ourselves lower to answer that question. We try to optimize the price what is available in the market, basis the proposition, of the segment what we are addressing.
- On an aggregate level, the yield, if I collect the entire non-prime business including affordable, yield will be a differential of close to 1.25 to 1.5% from the pure prime business. From the prime business, the aggregate yield will be differential by around 1.25 to 1.5%.
- Siraj Khan:** And so, 1.25 to 1.5% will be, it will be above the affordable near prime business over the prime. Have I got that correct?
- Atul Jain:** Yes.
- Siraj Khan:** And so, what we're essentially saying is we will not try to undercut or we will try to price it as per the merit and as per the demand scenario, demand?
- Atul Jain:** Yes. As per the demand, because there is no, we don't believe in cutting the price, but we believe in always being competitive in the market.
- Siraj Khan:** Understood. Thank you. Thank you very much.
- Moderator:** Thank you. Next question is from the line of Satinder Singh from Eon Investments. Please go ahead.
- Satinder Singh:** Yes, thanks for the opportunity. So, my question is around the assignment strategy. So, given that our gearing currently is below our target gearing of 7 to 8, so I was wondering if assignment makes great sense. So, while assignment does help us increase our ROA, but then it doesn't help on the ROE side. So, what is the metric we are targeting?
- Is it ROA over ROE or is it ROE? So that's the first part. And the second is, given the outlook that we have on the market, so what is the time frame within which we should hit that, say, 7 to 8 gearing or let's say median 7.5 gearing?
- Atul Jain:** So, Satinder, two parts. We do assignment, like I was answering, when I was answering the earlier question over assignment strategy on the net total income trend. We do assignment because of two factors, not ROA or ROE driven, but one from a treasury strategy from an ALM perspective.

So, mortgage because asset booking is of a much larger duration while your liabilities are of a much shorter duration comparatively. So, it is always a sound strategy in our assessment in a mortgage to have a certain percentage of assets always being assigned out to have a perfect ALM match. That's what we have been doing, from inception, if you look at our six-year, seven-year record, we had always been assigning about 12-13% of the assets, whether leverage being high or leverage being low, it is coming from treasury strategy.

Having said that, last year since we went long on the bond side and our ALM match was corrected, we called out that in the current year we are not falling assignment out from a treasury strategy because our leverage is low, precisely to the reason what you called out.

Because of the leverage being low, we said that we will do assignment not for the treasury strategy and our ALM match has happened because leverage can still be low, but there is an ALM gap, we prefer to do more assignments so that we don't build a tenor risk in the balance sheet. But the tenor risk is not the point as of today.

So, treasury strategy is not there for assigning from an ALM point of view. However, the second part of the assignment remains on the PBC, which is on a non-home loan assignment. If we have an ability or opportunity, because our home loan book is growing at 19%, aggregate we have grown at 24%. That means our home loan book is growing at a faster pace and home loan is 55%.

So, if it is growing at 19%, that means the other part of the book is growing at a 30 odd percent. Now, if I have an ability to grow a non-home loan portion more, but to meet the PBC criteria, we have an opportunity to assign and get the spread. It's not a question of leverage or not because then the opportunity is not there to do that business in the non-home loan because then you get constrained by your growth in home loan book to grow the non-home loan business.

Have I been able to explain you clearly, Satinder, or you want me to elaborate further?

Satinder Singh: No, no, I think that's very clear. I think this is very articulate. And when do we hope to hit the seven and a half kind of a gearing, based on the outlook that you have?

Atul Jain: I think two years is the time frame where we should be. It will depend upon the growth numbers, of course, but as we give a medium term growth guidance, I think two years, two and a half years is the time frame where we should look at achieving that sustainability vision. This is what we say target ratio of a leverage.

Satinder Singh: Okay, right. And one final question. Given that we should be now nearing the end of the rate cutting cycle, how optimistic are we that we should be able to revert to our medium term guidance in FY '27?

Atul Jain: You're talking about the AUM growth?

Satinder Singh: Yes, the medium term guidance in terms of AUM growth and we are -- primarily AUM growth.

Atul Jain: We cut our guidance for the current year basis the higher attrition pressure, which as of today is not looking to come down. We guided for that last year in the current last quarter, saying that the current year growth is looking to be lower because of the higher attrition pressure. However, as the company focus remains on growing disbursement, which you can see in quarter one and quarter two, the disbursements have grown faster than what they were going last year. But our AUM growth is slightly muted because of a higher attrition pressure.

As the attrition pressure weans off with our rate stabilization in the market, with one more rate cut in December, you can expect stabilization in the market in three four months. As we continue to focus on growing disbursement, we feel that by next year, then we can come back to our normalized or the medium term guidance growth in AUM. Disbursements continue to grow the way we are doing it now. Attrition pressure comes down, the AUM growth comes back on track in line with the medium term guidance that we have given.

Satinder Singh: Okay, and on the opex to NTI, what kind of time frame do you see as of today in terms of coming back to a 14 to 16 target?

Atul Jain: So, 14 to 16 was not a coming back. 14 to 16 was always a three to four year aspiration number, three to four year trajectory. I think that we remain on that. In a lower interest rate scenario, the reduction in a Y-o-Y basis will be either flattish or a 1%-1.5%. But as the cycle turns, with the income expansion, because opex to NTI has two parts. One is the income expansion, second is the opex growth. We will always be opex efficient, and as we continue to grow, I think next three to four year, you should clearly see the 14% to 15% kind of opex to NTI numbers.

Satinder Singh: Okay, fine. Thank you very much. Great set of results. All the best.

Moderator: Thank you. Next question is from Bobby Jayaraman from Frunze Investments. Please, go ahead.

Bobby Jayaraman: Yes, hello. You mentioned there was a lot of competition in the home loan segment. How is it in lease rental discounting, and property developer loans?

Atul Jain: Sorry, I couldn't get your question clearly, Bobby. Can you do me a favor and repeat the question?

Bobby Jayaraman: What is the level of competition in lease rental discounting, and developer loans? Is it as much as it is in home loans?

Atul Jain: Lease rental discounting, the level of competition would be higher than the home loan as well, because these are all, one, the customers are quite evolved. They have an access to each of the large lending institutions and each of the large lending institutions, specifically banks. This is a product which is not offered by housing finance companies. I think probably we might be the only company which is offering this at scale.

This is the published results, whatever we have seen. But all banks, including all public sector banks, large public sector banks, and including all large private sector banks, this is a product of choice. So, the competition is significantly, you can say, in line with what is as a home loan.

For developer finance, competition is more from some housing finance companies, NBFCs, and in recent past, what we have seen largely from even some private credit funds to the AIF structure. While AIF work on a normally higher trajectory, but as they take exposure at the beginning of the project, the project funding also gets locked in through that structure.

So, and that's where competition on the construction finance comes. But construction finance, we are not guided by any competition, Bobby. We do that, basis the opportunity available. I think there's enough opportunity availability in the market. It's a risk construct driven rather than the competition or the pricing driven. Lease rental discounting is a market competition driven, but construction finance is risk driven from acquisition part of it.

Bobby Jayaraman:

Now I understand. And also taking a longer perspective, over the next 10 years or so, the whole idea behind NBFCs is that, there'll be so much demand that the banks won't be able to cater to it and you can offer a solution, right?

Because your cost of funds are higher. That's the basic premise, right? For NBFCs. But you're not seeing anything like that now because the GDP growth is around 6.5% to 7%. So, you're not seeing the real estate demand, which will not incur this much pricing competition.

Atul Jain:

So, Bobby, if I get your question right, but first I would have a slightly different opinion than you in terms of what is the reason of an HFC being existent rather than a bank. In our assessment and the way, we look at the construct of our company, we don't look at it as if is doing a credit or meeting the credit demand, which bank is not able to meet.

Because we, our larger part of the balance sheet is in the prime segment, which is whether a prime home loan or a lease rental discounting there, which is all banks, all large banks, public, private are aggressively present. So, we don't look at it as doing the business and we believe from a cost of fund perspective, for a well-run company, for a good credit, which is what we are, which is rated highest in India as a domestic credit rating, your cost of fund can be higher at a coupon rate level versus a bank because bank may have a, you can say a CASA benefit coming in through their coupon rates.

But when they look at their all expenses put together to mobilize the treasury or mobilize the CASA and the other related compliance costs, I don't think a well-run company at a AAA level is at a disadvantage versus a bank to be able to compete in the prime space. If that would have been the case, Bobby, then what we have seen for years, for decades in the country, HDFC Limited was leader in mortgages, not even State Bank of India. State Bank of India, I think, became the largest player close to 17, 18, if my memory is right.

So, from 20, 30 years, HDFC was the dominant player and including when SBI crossed it, it remained the second by a near margin. So cost of funds is not very different for a well-run, high

quality credit company is my assessment and we continue to remain focused and next 10 years also, we'll continue to build a business for scale, low risk, in line with what banking is there with offering all mortgage products to balance risk and return.

If GDP growth will mean the market will continue to grow at a much larger level. The second, the GDP mortgage, mortgage as a GDP penetration also is lower in country and as a country per capita is increasing, we believe there is a sufficient scope from there. Looking at a long term average, because if you look at a home loan market, it has always grown on a plus minus 12%-13% kind of a AUM growth, which has been there, last 10-15 years.

We believe it can slightly go up from here onward. That means a portion can be higher rather than lower as we move forward from here.

Bobby Jayaraman: Okay, I understand. And as you move with affordable loans, your risk, your credit cost might likely be higher. So how does that align with your low risk model, which is one of your guiding principles?

Atul Jain: So, when we guide for our medium term, GNPA's is as well, we always guide for Bobby, from last year, is 40 to 60 bps, because that's the model is constructed for. We are today lower, and we like to be lower in there. But the model what we construct is for that 40 to 60 bps of a GNPA and 20-25 bps of a credit cost. That makes it a mix.

See, model is scale, low risk and medium return, or a reasonable return. We don't say it's a scale, low risk and low return. Because if you have to be a scale, low risk and low return, we don't need to do a non-prime business or a construction finance business. But we have to deliver a reasonable return. That is where some mix of or a relevant mix of a non-prime business and a construction finance is essential for the balance sheet mix.

Well, the dominant part of the balance sheet will always remain prime plus lease rental discounting, which are lowest or least risk asset. It's a part of a sum of parts in that sense in the company. We have one of the fourth pillar of strategic differentiator of the company also, which we put out in our deck always, is also we are a full mortgage product suite company.

We are not a one segment of a mortgage which is there. So, we'll always offer all products in mortgages. Relevant weight on each of the segment can be plus and minus basis risk return calculation at that point of a time.

Bobby Jayaraman: Okay, I understand. Thank you very much.

Moderator: Thank you. Next question is from Siraj Khan from Ascendancy Capital. Please go ahead.

Siraj Khan: Thank you again for the follow up. One question more on the business and other notes on the business. On the business, The LRD business, I mean, it's already at one, more than one fifth of the business 20 odd percent. Where do you see this settling? I mean, do we have a mind where we cap it out or anything with respect to that?

Atul Jain: No, Siraj. That's because we have a capping of a 60% residential business, 40% non-residential. Basis the opportunity available and the returns available, if it gives better return, there is the capping is only the regulatory capping and there also like I called out in earlier question, if I have the ability to do a assign out, we'll continue to grow because this business fits perfectly with our concept of a scale, low risk, reasonable return.

This meets all the three boxes on the criteria what we have. It's a scale, low risk business, it gives a reasonable return because of a low opex. So, there's no cap what we have other than the regulatory cap, which is on a non-home loan business.

Siraj Khan: Okay, so I mean, so we could scale because it's a very high growth business. So, I was just wanting to ask, have we internally set any cap, like 25% or 30%. So, there is no issue with respect to the concentration specific.

Atul Jain: It will not go beyond that, because if 40% is your total non-residential business, which can be between LAP, construction finance and lease rental discounting, I think there will be an automatic ceiling. It will come at an AR level, not at a AUM level. AUM level, it can have a different there, because if you have an ability to assign, you can continue to grow more.

So, largely, say 20-25% beyond will be is not a visibility. But if there's an opportunity, we like to grow and if you have an opportunity to grow and also assign out, because on a standalone basis, it cannot grow to 30%. That will mean construction finance and LAP have to go down to zero, if it is an or 10% at the AR level. But AUM level, there's no cap or if you have an ability to keep on mobilizing.

Siraj Khan: Understood. Great. And the second question was more so on like, we've seen in the HFC space, specifically in these, what do you say, affordable housing space, where a lot of there has been this PE backed over sell, sell side overhang of the PE player exiting. In our case, that's not the case. But we have a high holding with respect to Bajaj Finance Holding, 88%.

So, my question is indirectly with respect to the minimum shareholding. I was also reading up a consultation paper that is saying that the minimum shareholding timelines with respect to which that has to be met at the 25%, public shareholding. So, anything with respect to that, because from what I understand now, with the market cap of INR50,000 crores to INR1 lakh crores, within three years from listing 25% has to be achieved. We've been listed for like a year or so.

Atul Jain: The guidelines have already come. It's not a consultancy paper in any case. So, we have time till September '29 now to get it. It's not gazetted yet, but the guidelines have come. So, it will get gazetted. The guidelines have come. So, we'll have time till September '29 for the parent to dilute.

By the time I think we will require one additional round of a capital or primary capital and the basis. The other -- it will be decided by the BFL board it because it's a decision given by parent to dilute. We are not in a hurry to dilute because we have not got any urgency to raise primary capital.

- Siraj Khan:** I understand that. So, I was just wanting to understand from respect to -- I'm not sure. I'm sure that they will not be selling out. But how will the -- how will that come down? I mean, most probably it will be through a QIP, but that will be much later.
- Atul Jain:** It is the FY '29. It is four years from now. Yes.
- Siraj Khan:** Yes. Thank you.
- Moderator:** Thank you very much. As there are no further questions, I'll now hand the conference over to the management for closing comments.
- Atul Jain:** Thank you. Thank you all for your patient listening. Thank you all for joining us on the call. That's all from us. All of us here for that. Thank you.
- Moderator:** Thank you very much. On behalf of Axis Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.