BAJAJ FINANCE LIMITED

29th ANNUAL REPORT 2015-16

Contents

Corporate Information

Board of Directors

Rahul Bajaj
Chairman

Nanoo Pamnani
Vice Chairman

Sanjiv Bajaj
Vice Chairman

Rajeev Jain
Managing Director

Madhur Bajaj

Rajiv Bajaj

D S Mehta

D J Balaji Rao

Omkar Goswami

Dipak Poddar

Ranjan Sanghi

Rajendra Lakhotia

Gita Piramal

Audit Committee

Nanoo Pamnani
Chairman

Sanjiv Bajaj

D S Mehta

Omkar Goswami

Ranjan Sanghi

Stakeholders Relationship Committee

Ranjan Sanghi
Chairman

Nanoo Pamnani

Sanjiv Bajaj

D S Mehta

Gita Piramal

Nomination and Remuneration Committee

Nanoo Pamnani
Chairman

Rahul Bajaj

Sanjiv Bajaj

Omkar Goswami

Ranjan Sanghi

Rajendra Lakhotia

Corporate Social Responsibility Committee

Rahul Bajaj
Chairman

Nanoo Pamnani

Sanjiv Bajaj

Risk Management Committee

Nanoo Pamnani
Chairman

Sanjiv Bajaj

Rajeev Jain

Dipak Poddar

Rakesh Bhatt

Bharath Vasudevan

Sandeep Jain

Chief Financial Officer

Sandeep Jain
(w.e.f. 4 February 2016)

Rajesh Viswanathan
(upto 3 February 2016)

Company Secretary

Anant Damle

Auditors

Dalal & Shah LLP
Chartered Accountants

Secretarial Auditor

Shyamprasad D Limaye
Practising Company Secretary

Bankers

Central Bank of India

State Bank of India

IDBI Bank Limited

Syndicate Bank

Bank of India

Share Transfer Agent

Karvy Computershare Private Limited
Karvy Selenium Tower B, Plot 31-32,
Gachibowli, Financial District,
Nanakramguda,
Hyderabad – 500 032

Debenture Trustee

GDA Trusteeship Limited
GDA House, Plot No. 85,
Bhusari Colony (Right),
Paud Road, Pune – 411 038
Tel.: 020-25280081
Email ID: dt@gdatrustee.com

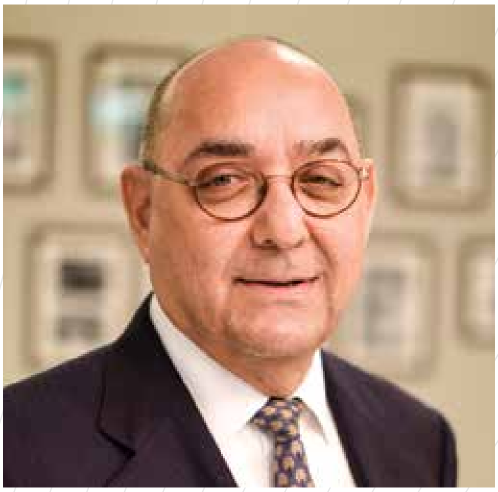
Registered Office

Akurdi, Pune – 411 035

Corporate Office

4th Floor, Bajaj Finserv Corporate Office,
Off Pune-Ahmednagar Road,
Viman Nagar, Pune – 411 014

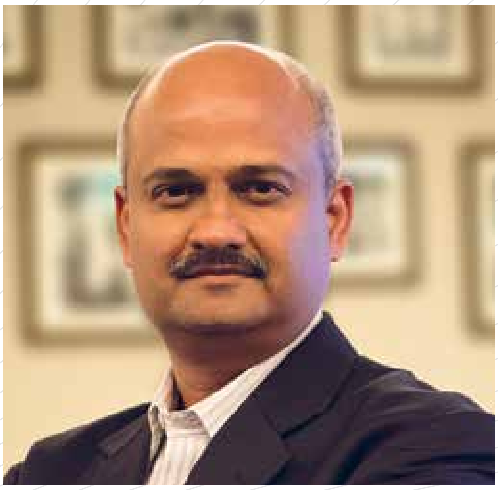
Leading the Way



Nanoo Pamnani
Vice Chairman

Sanjiv Bajaj
Vice Chairman

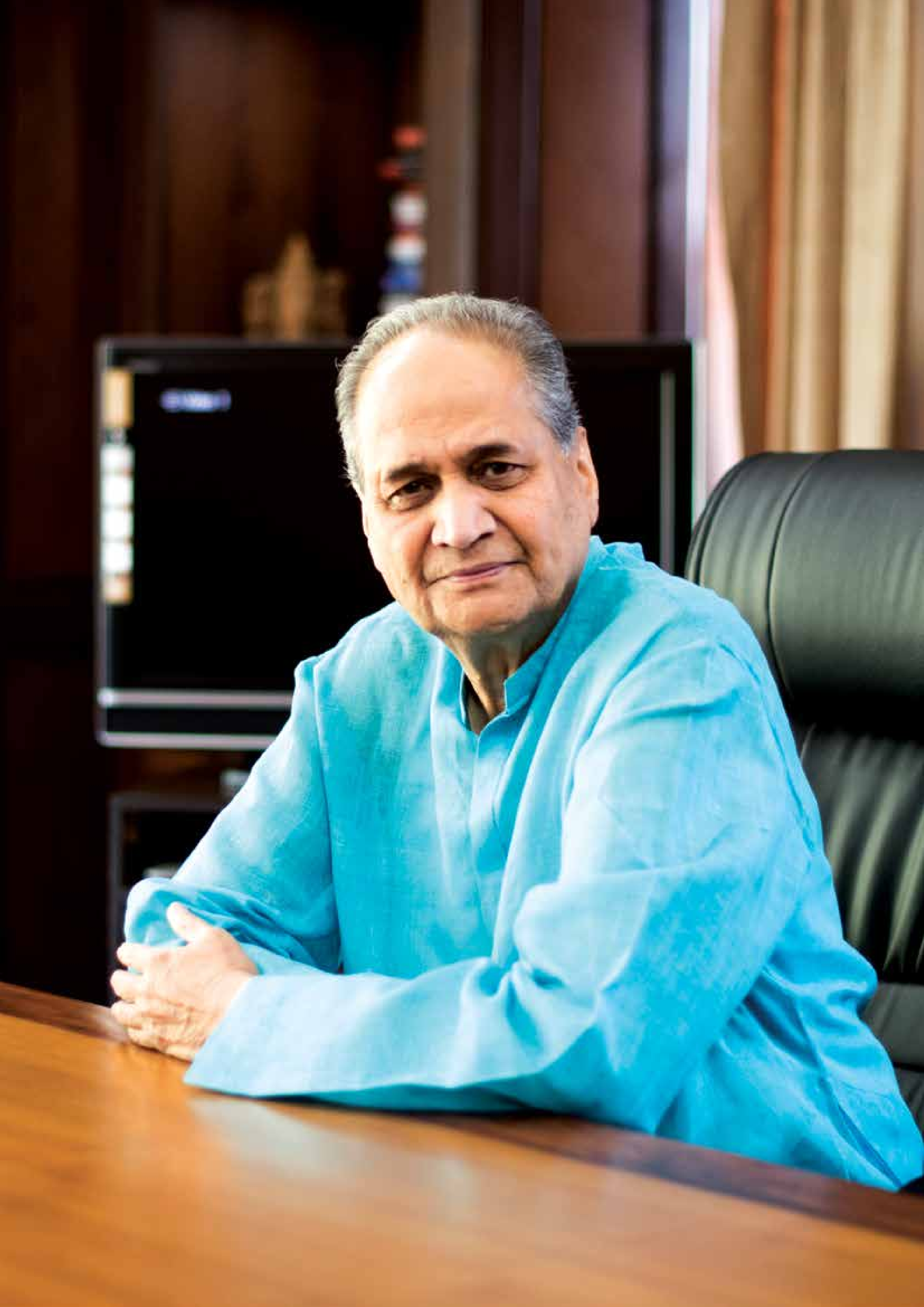
Rajeev Jain
Managing Director



Rakesh Bhatt
Chief Operating Officer

Devang Mody
President – Consumer Business

Atul Jain
President – Collections & Rural Lending



Chairman's Letter

Dear Shareholder,

According to the Government of India's Central Statistical Organisation, India's real GDP will have grown by 7.6% in FY2016 compared to the previous year, and real gross value added (GVA) by 7.3%. Moreover, the data suggests that our growth rate is picking up — from 7.2% in FY2015 in terms of GDP, and from 7.1% in terms of GVA.

I accept this data. Equally, I somehow feel that an economy that increased its national income by over 7% in real terms — a growth rate that is higher than any developed country or any other emerging market major — ought to have shown some more tangible indices of growth. I refer to a pick up in corporate investments and capital expenditure, an increase in consumer spending, a noticeable rise in household savings and a sound double-digit growth in credit off-take. These haven't happened so far. Perhaps we are in the early days yet, and that the 'green shoots' are taking longer to grow.

Therefore, the macroeconomic conditions that your Company had to face were not as propitious as the growth rates might suggest. Bank credit grew by a little over 11% in FY2016; deposits increased by under 10%; and despite the Reserve Bank of India easing its policy rates by 100 basis points in the course of the year, interest rates remained high and the supply of loanable funds was still very tight.

In such an environment, I am proud to write that Bajaj Finance has done exceptionally well and succeeded in delivering strong results yet again. Here are some of the basic facts for the year under consideration:

- Assets under management increased by 36% to ₹ 44,229 crore.
- Receivables under financing grew by 37% to ₹ 42,756 crore.
- Total income rose by 36% to ₹ 7,384 crore.
- Net interest income increased by 41% to ₹ 4,457 crore.
- Profit before tax was up by 45% to ₹ 1,965 crore.
- Profit after tax increased by 42% to ₹ 1,279 crore.
- Net non-performing assets (NPAs) is at 0.28%, which is among the lowest in banking and the NBFC industry.
- Capital adequacy as on 31 March 2016 was 19.50%, which was not only higher than the previous year but also significantly above the RBI's norms. Tier I capital adequacy was in excess of 16%.

As was the case last year, your Company has done well across each of the major business verticals. Asset under management in Consumer Lending increased by 44% to ₹ 18,996 crore. Lending to Small and Medium Enterprises grew by 20% to ₹ 18,692 crore. Commercial Lending rose by 56% to ₹ 5,202 crore. And my favourite — the new Rural Lending business — grew its receivables under finance from ₹ 50 crore in FY2014 to ₹ 333 crore in FY2015 and now to ₹ 1,339 crore in FY2016. Last year I had hoped that we could "expeditiously yet prudently tap this market for the benefit of BFL as well as of the rural populace and its various enterprises". Your Company's Management has shown that it can be successfully done with a more than three-fold increase in this business.

To fuel medium term growth, your Company successfully raised capital by issue of shares to Qualified Institutional Buyers (QIBs) amounting to about ₹ 1,400 crore. Simultaneously, a preferential allotment of convertible warrants was made to Bajaj Finserv Limited, the holding company. Thus, Bajaj Finance now has the additional capital to finance higher growth while maintaining strong capital adequacy.

We must congratulate your Company's sustained and stellar growth. Equally, we must recognise something that makes such growth safe — namely an unwavering attention to mitigating risks, maintaining sound business practices, keeping an eagle eye on the slightest mismatch between assets and liabilities and using best-in-class IT and analytical tools to rapidly decide what risks are worth taking and what are not. These are core to the functioning of your Company and are no less important than the growth engine that we have come to laud every year.

You would agree with me that the entire Management of Bajaj Finance — led by Rajeev Jain, your Managing Director, Rakesh Bhatt, Chief Operating Officer, Devang Mody, President of the Consumer Business, and actively guided by Nanoo Pamnani and Sanjiv Bajaj, both Vice Chairmen of the Company — deserves strong applause for such excellent performance.

Given the systems that have been put into Bajaj Finance and the managerial DNA for higher growth with greater profits and long term shareholder value, I have no doubts that your Company will perform as well next year as it has in FY2016.

Join me in encouraging the Management to scale further heights. Which, I'm sure, it will.

Thanks for your support.

Yours sincerely,

Rahul Bajaj

Rahul Bajaj
Chairman

Management Discussion and Analysis

Financial year 2015–16 (FY2016) began on a positive note. Despite a gloomy global scenario — both across developed economies and key emerging ones such as China — India had closed FY2015 with growth in real GDP of 7.2% and a growth in gross value added (GVA) of 7.1%. Low crude oil prices, comfortable inflation levels, some reduction of policy rates by the Reserve Bank of India (RBI), a reasonable current account deficit and the promise of reforms by the Central Government under Prime Minister Narendra Modi suggested even faster economic growth in FY2016.

In all fairness, that has happened, notwithstanding disastrous monsoons for the second successive year, low agricultural growth, poor income generation across much of rural India and relatively lukewarm growth in infrastructure activities. As Table 1 shows, growth is picking up.

Table 1: Growth in Real GDP and GVA, India

	FY2013	FY2014	FY2015	FY2016 (E)
Real GDP growth	5.60%	6.60%	7.20%	7.60%
Real GVA growth	5.40%	6.30%	7.10%	7.30%

Source: Government of India, Central Statistical Organisation (CSO). (E) denotes estimate.

Inflation levels remained comfortable during the year. The consumer price index inflation ranged from 3.7% to 5.7% while that of the wholesale price was (–)0.85% during the year. With lower inflation, the RBI cut policy rates by a 100 basis points (bps) in three tranches: a 25 bps reduction in June 2015, followed by another 50 bps in October 2015 and another 25 bps in April 2016. To ease liquidity, the RBI also announced in September 2015 an intent to reduce the Statutory Liquidity Ratio (SLR) in four equal phases by 100 bps by January 2017. The first such reduction of 25 bps was made in its monetary policy announced in April 2016.

Banks have passed on a part of the benefits of eased liquidity and rate cuts, but not enough given the difficult state of their books thanks to the burden of significant non-performing assets (NPAs). This encumbrance has also put a damper on the growth in bank credit, which grew at 11.3% in FY2016 versus 9.5% in the previous year — not the kind of uptick that one associates with a GDP growth of 7.6%. Growth in bank deposits too has been muted: rising at 9.9% in FY2016, which was 150 bps less than what had occurred in the previous year. This relatively lower deposit growth has not given sufficient avenues to the banks to improve their net interest margins, which was essential for the industry to cover the huge surge in NPAs.

Indeed, the four key issues in the banking sector are: (i) Will the banks have sufficient strength to correctly account for their NPAs and take the additional hits that they need to? (ii) What will that do to their lending appetite as India tries to grow at 8% per annum? (iii) Can there be a sensible way in which some of the NPAs be taken off the books and be located in asset reconstruction companies (ARCs) who must have the freedom to expeditiously re-sell or dispose such assets in parts or in the whole? And (iv) Is there a sensible way for the exchequer to recapitalise the public sector banks bereft of moral hazard, so that they can shore up their capital base and refocus on the core business of collecting deposits and lending? Regarding the last issue, while the Union Budget for 2016–17 has allocated ₹ 25,000 crore for bank recapitalisation, it is clearly not enough.

There are no doubts about the 'green shoots' across the economy. How FY2017 plays out depends upon the monsoons which are currently predicted to be normal, the extent of growth in infrastructure spends, a positive swing in entrepreneurial animal spirits leading to an increase in the number of projects, capital investments and the ability of the financial sector to finance growth. We at Bajaj Finance Limited are hopeful that FY2017 will see higher growth and a start of an investment cycle.

Non–Banking Finance Companies (NBFCs) continue to grow their share in financial services industry. India Ratings expects NBFCs to account for over 17% of the total credit in the country by FY2019, compared to 13.1% at the end of the FY2015 and 9.4% in the FY2006. Until some years ago, NBFCs were a small part of the financial services business with a small resource base. Today, the equity of leading NBFCs is comparable with or larger than many mid–sized banks. The combined market capitalisation of the top 10 NBFCs is now twice that of mid and small–sized public sector banks.

The Union Budget for 2016–17 has proposed to introduce deduction of the provision for NPAs by NBFCs under the Income Tax Act — hitherto available only to banks. This, coupled with the recommendation in the Union Budget of 2015–16 that NBFCs registered with the RBI with asset size of ₹ 500 crore or more be considered as 'financial institutions' in terms of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002, now creates a level playing field with the banks.

The Company

Bajaj Finance Limited ('Bajaj Finance', 'BFL' or 'the Company') had a strong year aided by a diversified product mix, robust volume growth, prudent operating cost management and an effective risk management. With assets under management of ₹ 44,229 crore, BFL has emerged as one of the leading diversified NBFCs in the country today. It delivered strong results in FY2016, the highlights of which are given below.

Bajaj Finance Limited: Performance Highlights, FY2016

- Assets under management: up 36% to ₹ 44,229 crore.
- Receivables under financing: up 37% to ₹ 42,756 crore.
- Total income: up 36% to ₹ 7,384 crore.
- Total operating cost: up by 36% to ₹ 1,949 crore.
- Loan losses and provisions: ₹ 543 crore.
- Profit before tax: up 45% to ₹ 1,965 crore.
- Profit after tax: up 42% to ₹ 1,279 crore.
- Capital adequacy as on 31 March 2016 was 19.50%, which is well above the RBI norms.

BFL focuses on six broad categories: (i) Consumer Lending, (ii) SME Lending, (iii) Commercial Lending, (iv) Rural Lending, (v) Fixed deposits; and (vi) Value added services. The Company's product suites are given below.