# BAJAJ FINANCE LIMITED

30th

**ANNUAL REPORT**

2016-17

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# 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**

**Atul Jain**

**Sandeep Jain**

## Chief Financial Officer

**Sandeep Jain**

## 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 Ltd.**

**Syndicate Bank**

**Bank of India**

## Share Transfer Agent

**Karvy Computershare Pvt. Ltd.**
Karvy Selenium Tower B, Plot 31-32,
Gachibowli, Financial District,
Nanakramguda,
Hyderabad - 500 032

## Debenture Trustee

**Catalyst Trusteeship Ltd.**
(Formerly GDA Trusteeship Ltd.)
GDA House, Plot No. 85,
Bhusari Colony (Right),
Paud Road, Pune - 411 038
Tel No. (020) 25280081
Email ID: ctltrustee.com

## Registered Office

Akurdi, Pune - 411 035

**CIN: L65910MH1987PLC042961**

## Corporate Office

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

# Leading the Way

First Row

**Nanoo Pamnani**
*Vice Chairman*

**Sanjiv Bajaj**
*Vice Chairman*

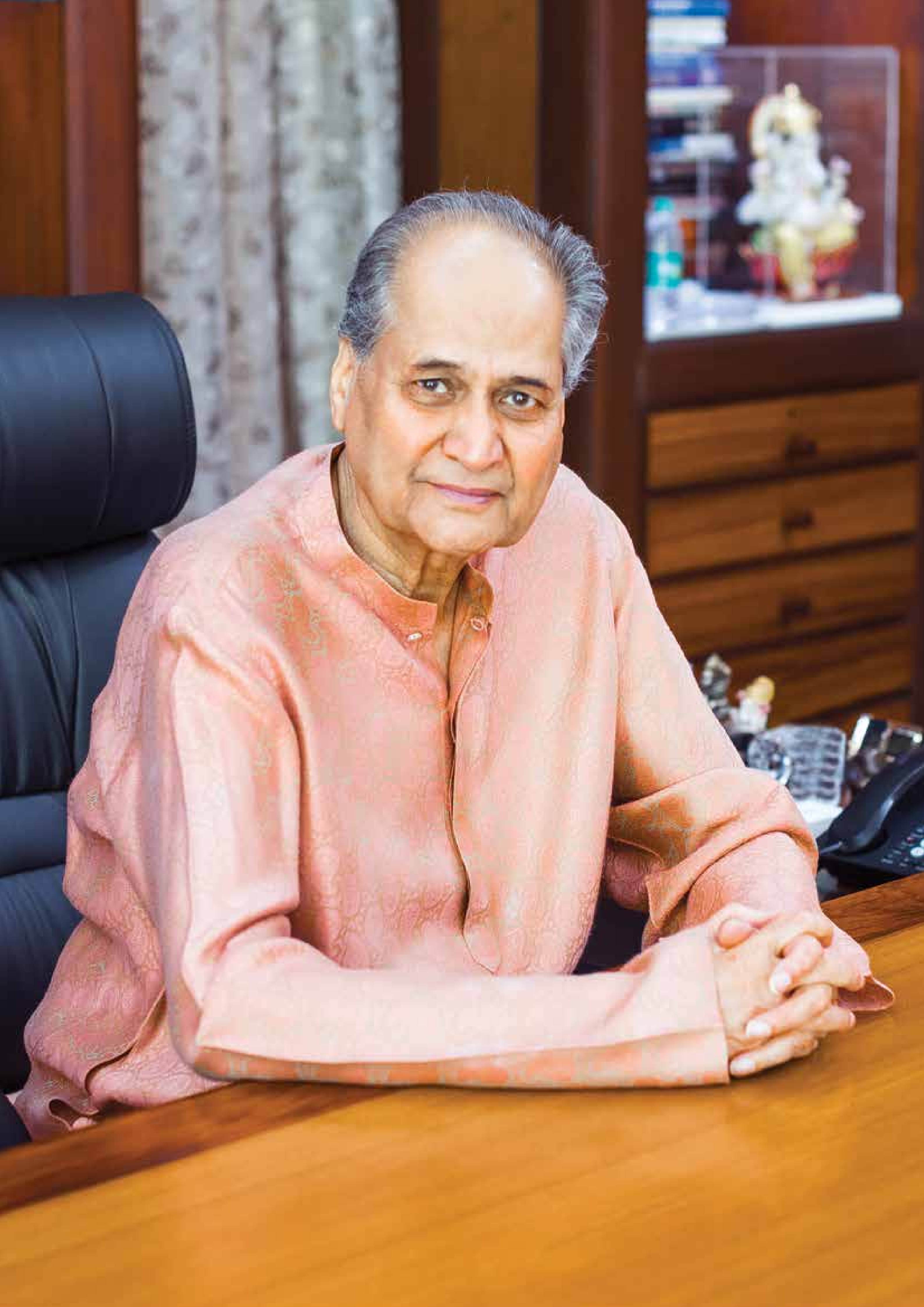
Second Row

**Rajeev Jain**
*Managing Director*

**Rakesh Bhatt**
*Chief Operating Officer*

Third Row

**Atul Jain**
*Enterprise Risk Officer*



# Chairman's Letter

## Dear Shareholder,

Last year, or 2015-16 (FY2016), India had achieved a growth in real GDP of 7.9%. This year, or FY2017, it is expected to be lower at 7.1% according to the second advance estimate released by the Central Statistics Office (CSO). There are several reasons for this lower growth. Among them, I need to emphasise a few.

The first is insufficient investments, not for a single year but across the last five years. Consequently, the share of gross fixed capital formation to GDP has steadily fallen from 31.7% in FY2015 to 31.1% in FY2016, and now to a low of 29.2% in FY2017. Unless investments pick up in FY2018 and the years ahead, I can't see how we as a country can attain sustained real GDP growth of 7.5% over the next decade.

The second is the burden of bad loans or non-performing assets (NPAs) in the banking system. At the end of December 2016, the gross NPAs of India's 27 public sector banks stood at ₹ 647,759 crore. This was a 140% increase over two years. And such NPAs accounted for 12% of these banks' total loans and advances. It is possible that the proportion may be higher still. The fact is that with such severe stress, these banks have no appetite for advancing loans for longer term investments. It is as if a key financial intermediary in the growth process has chosen to stay out.

It would be all too easy to say that the third cause was demonetisation, which was unleashed on 8 November 2016, involving over four-fifths of the currency in circulation. There is no doubt that the process caused hardship and pain to citizens as well as business. Yet, strange as it may sound, the latest national income estimates do not point to any severe compression in GDP growth in the third quarter of FY2017. If the CSO's data are accurate — and I have no basis to believe otherwise — it would appear that the negative effect of demonetisation on GDP growth may have been less than what we tend to surmise.

Even so, FY2017 was a difficult year, with lower growth than what we had all expected. In such a milieu, I am proud to share with you the excellent achievements of your Company, Bajaj Finance Ltd. (BFL). Here are some key facts:

- New loans booked exceeded 10 million in numbers, which is a first for the Company.
- Assets under management increased by 36% to ₹ 60,194 crore.
- Receivables under financing rose by 33% to ₹ 56,832 crore.
- Total income grew by 36% to ₹ 10,003 crore.
- Profit before tax increased by 43% to ₹ 2,818 crore.
- Profit after tax increased by 44% to ₹ 1,837 crore.
- Loan losses and provisions were ₹ 818 crore. BFL's net NPA stood at 0.44%, and was among the lowest in the NBFC industry.
- Capital adequacy as on 31 March 2017 was 20.30%, which is not only higher than the previous year but also well above the RBI norms. Tier I capital adequacy was 14.56%.

To achieve results such as these in a relatively tough year is extremely commendable. And to keep on generating such superior performance year after year clearly demonstrates the execution strengths and capabilities of your Company's Management team. On your behalf, allow me designations to congratulate everyone in BFL, led by Rajeev Jain, Managing Director, Sanjiv Bajaj and Nanoo Pamnani, both Vice-Chairman of the Company, for such outstanding results. Here is a Company that we should be justifiably proud of.

As was the case last year, your Company has done well across each of its product suites spanning six major business verticals: Consumer Lending, SME Lending, Commercial Lending, Rural Lending, Deposits, and Partnerships and Services. I leave it to you to read the chapter on Management Discussion and Analysis in this Annual Report to appreciate how well BFL has done in each activity.

All of this has been backed by excellent internal controls, cost and risk management systems and perhaps the best-in-class analytics among all banks and NBFCs in India, to not only understand how to optimally garner the right kind of customers but also to know when and how to quickly recalibrate operations according to altering risk profiles.

Let me repeat a sentiment that I shared with you last year. Given the systems that have been put into Bajaj Finance and the depth and width of managerial DNA across the organisation, I have no doubts that your Company will perform at least as well in FY2018 as it has in FY2017.

Once again, my thanks to the entire BFL team. And to you for your support.

Yours sincerely,

Rahul Bajaj
Chairman

17 May 2017

# Management Discussion and Analysis

## A macroeconomic overview

Financial year 2016-17 (FY2017) began on a positive note. India had closed FY2016 with growth in real GDP of 7.9% and a growth in gross value added (GVA) of 7.8%. Despite two disconcerting facts — namely, the high level and proportion of the banking sector's non-performing assets coupled with a muted growth in bank credit — there were expectations of India achieving a GDP growth rate somewhere between 7.5% and 8% in FY2017.

Unfortunately, that has not occurred. The second advance estimates of national income forecast by the Central Statistics Office released on 28 February 2017 suggest a real GDP growth of 7.1% for FY2017; and a real gross value added (GVA) growth of 6.7%. Both estimates are significantly lower than what the economy achieved in the previous year. Table 1 gives the data over the last four financial years.

### Table 1: Growth in Real GDP and GVA, India

| | FY2014 | FY2015 | FY2016 | FY2017 (E) |
|---|---|---|---|---|
| Real GDP growth | 6.9% | 7.3% | 7.9% | 7.1% |
| Real GVA growth | 6.6% | 7.2% | 7.8% | 6.7% |

**Source:** Government of India, Central Statistics Office (CSO). (E) denotes estimate.

On 8 November 2016, the Government announced demonetisation of ₹ 500 and ₹ 1,000 banknotes, which represented 86% of the currency in circulation. Contemporary evidence suggested significant disruption arising out of unprecedented cash constraints throughout the economy. For lending institutions in particular, the impact of lower collection efficiencies was quite severe, and resulted in poorer credit growth.

However, the national income data published by the CSO does not suggest any significant reduction in GDP or GVA growth in the third quarter of FY2017 which could have been correlated with the demonetisation drive. The third quarter traditionally tends to be muted. In FY2016, the growth rate of real GVA in Q2 was 8.4%; and in Q3 it was 7%, or a sequential drop of 1.4 percentage points. In FY2017, GVA growth in Q2 was 6.7%, and in Q3 it was 6.6%. In other words, despite the effects of demonetisation for over 60% of Q3 FY2017, the negative effect — as reported by the CSO — has been only 10 basis points. We need harder evidence to clearly quantify the impact of demonetisation on real GDP or GVA growth. What the data so far suggests is that it was more moderate than the naysayers claimed it would be. And that the effects would be transitory.

If demonetisation was not the prime cause for the lower estimate of GDP and GVA growth in FY2017, then what were the other determinants? There are two.

The first is insufficient investments, especially over the last five years. Gross fixed capital formation (GFCF) for FY2017 is estimated to be only 0.6% higher than what it was in FY2016. The share of GFCF to GDP has steadily fallen from 31.7% in FY2015 to 31.1% in FY2016 to a low of 29.2% in FY2017. Unless investments rapidly pick up in FY2018 and the following year, it is difficult to envisage how India can achieve a sustained real GDP growth of 7.5%, leave aside an aspirational target of 8%.

The second is also related to investments and linked to the state of our banks, especially many of those under Government ownership. Data for the quarter ended 31 December 2016 shows that for the 27 public sector banks which account for the vast majority of the nation's loans and advances, gross NPAs were estimated at ₹ 647,759 crore, a 140% increase over what it was two years earlier. Today, such NPAs constituted 12% of total loans and advances. The proportion may indeed be higher still. In any event, with these banks being so badly stressed, there is no appetite for advancing term loans without which, it is impossible to envisage the investment spends required to transit to a higher growth path.

Consequently, it is not surprising that several sectors of the economy have seen a reduction in growth. Real GVA in mining and quarrying is estimated to grow by only 1.3% in FY2017 versus 12.3% in the previous year. Manufacturing growth for FY2017 is pegged at 7.7%, which will be 290 basis points lower than what it was a year ago. GVA from trade, hotels, transport, communications and broadcasting services are expected to grow by 7.3% compared to 10.7% in FY2016. And GVA from financial, real estate and professional services is estimated to grow at 6.5% in FY2017 versus 10.8% a year before.

Having said this, it needs to be emphasised that 7.1% real GDP (or 6.7% real GVA) growth happens to be among the highest in the developed world and across all major emerging markets, including China. From a cross-country perspective, therefore, we seem to be doing well enough. The issue is internal to India: Is such growth sufficient to significantly increase incomes and employment and reduce poverty in the country? And the answer is straightforward: we need to do much more.

What about inflation? The Consumer Price Index (CPI) inflation varied month-to-month between 3.2% and 6.1% during FY2017. Excluding food and fuel, however, core CPI inflation has remained at around 4.9% since September 2016, which is somewhat higher than what the Reserve Bank of India (RBI) is comfortable with. Thus, in February 2017, the RBI changed its monetary policy stance from accommodative to neutral. With core inflation remaining firm in the neighbourhood of 5%, the RBI in its first monetary policy statement for 2017-18 (FY2018) has justified maintaining a hawkish stance.

Growth in bank credit continued to be subdued. Thanks to the overhang of NPAs, it grew only by 5.2% in FY2017 versus 10.2% in the previous year. On the liability side, demonetisation led to an unnatural growth in bank deposits, which increased by 11.9% in FY2017 compared to 9.1% in FY2016. Awash with post-demonetisation liquidity, the banks significantly reduced their incremental marginal cost based lending rates in January 2017. This, we believe, has created a potentially alarming situation in the banking sector, especially for the public sector banks. On the one hand, these institutions remain saddled with high levels of NPAs from which they earn little or no returns and need quarterly provisioning to the detriment of their profits. On the other hand, extra liquidity has forced a reduction in lending rates which, in turn, reduced the net income margin from new lending. Without exaggeration, it is fair to say that the state of most banks continue to be alarming.

How FY2018 plays out depends upon two factors: the investment appetite of the country and a perennial annual variable called the monsoons. Regarding the former, there is still no sign of even a modest upsurge in private investments as firms continue to leverage efficiency improvements and squeeze the best out of existing capacities. As far as the latter is concerned, the India Meteorological Department has come out with an initial forecast of a normal monsoon. That remains to be seen. It will only be after August 2017 that we know how ample the south west monsoon was.

On the positive side, the roll out of the nation-wide Goods and Service Tax (GST) in FY2018 ought to aid growth. To be sure, a task as monumental as the GST will have teething troubles in the first two quarters. We believe that it is only in FY2019 that the country will begin to see the overall benefits of this key economic reform. Equally, the Insolvency and Bankruptcy code ought to finally create a market for stressed assets; and, all other things being equal, reduced bank lending rates should make borrowing more attractive than before.