

DIRECTORS' REPORT

Dear Shareholders,

Your directors present the thirty-fifth Annual Report along with the audited standalone and consolidated financial statements for FY2022.

Sad demise of Shri Rahul Bajaj, Chairman Emeritus of the Company

At the outset, your directors express their profound grief on sad demise of Shri Rahul Bajaj, the iconic leader of the Company, who passed away on 12 February 2022.

He lived an extraordinary life. He was the architect of one of the most respected business groups in the country, a vocal proponent of entrepreneurship, and a voice of the industry at large.

He stood for what he believed, a man driven by values, bold in both expression and action. While he remained the torchbearer of a family legacy that dates back to the founding days of our country, he championed the creation of a new India.

While his passing away has left a huge void among us, he leaves behind an unparalleled foundation for all of us to build upon.

The Board of Directors ('Board') places on record its whole-hearted appreciation of the invaluable contribution made by him to the spectacular success of the Company and the Group over several decades.

Financial Results

The highlights of the standalone financial results are given below:

Particulars	(₹ in crore)		
	FY2022	FY2021	% change over FY2021
Total income	27,871	23,546	18
Interest and finance charge	7,573	7,446	2
Net interest income	20,298	16,100	26
Total operating expenses	7,090	5,016	41
Pre-impairment operating profit	13,208	11,084	19
Impairment on financial instruments	4,622	5,721	(19)
Profit before tax	8,586	5,363	60
Profit after tax	6,350	3,956	61
Retained earnings as at the beginning of the year	13,487	10,349	30
Profit after tax	6,350	3,956	61
Other comprehensive income on defined benefit plan	(3)	(26)	(88)
Retained earnings before appropriations	19,834	14,279	39
Appropriations			
Transfer to reserve fund u/s 45-IC(1) of the RBI Act, 1934	(1,271)	(792)	60
Dividend paid	(603)	-	-
Adjustment of dividend to ESOP Trust	1	-	-
Retained earnings as at the end of the year	17,961	13,487	33

Due to rounding off, numbers presented in above table may not add up precisely to the totals provided.

Transfer to Reserve Fund

Under section 45-IC(1) of Reserve Bank of India ('RBI') Act, 1934, non-banking financial companies ('NBFCs') are required to transfer a sum not less than 20% of its net profit every year to reserve fund before declaration of any dividend. Accordingly, Bajaj Finance Ltd. (the 'Company', 'Bajaj Finance' or 'BFL') has transferred a sum of ₹ 1,271 crore to its reserve fund.

Pursuant to provisions of Companies Act, 2013 (the 'Act') read with relevant rules thereunder, the Company, being a NBFC, is exempt from transferring any amount to debenture redemption reserve in respect of privately placed debentures including the requirement to invest up to 15% of the amount of debentures maturing during the next financial year. However, the Company maintains sufficient liquidity buffer to fulfill its obligations arising out of debentures. In case of secured debentures, an asset cover of over 100% is maintained at all times.

Dividend Distribution Policy

Pursuant to the provisions of regulation 43A of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the 'SEBI Listing Regulations'), the Company had formulated a dividend distribution policy, which sets out the parameters and circumstances to be considered by the Board in determining the distribution of dividend to its shareholders and/or retaining profit earned. The policy is annexed to this report and is also available on the website of the Company at <https://cms-assets.bajajfinserv.in/is/content/bajajfinance/dividend-distribution-policy.pdf?scl=1&fmt=pdf>

Dividend

RBI vide its circular dated 24 June 2021 have laid down framework for declaration of dividend by NBFCs. Accordingly, the Board of Directors after taking into account various aspects and in compliance with the said circular, recommend for consideration of the members at the ensuing Annual General Meeting ('AGM'), payment of dividend of ₹ 20 per equity shares (1000%) of face value of ₹ 2. The total dividend for FY2022 is ₹ 1,211 crore.

The dividend recommended is in accordance with the principles and criteria set out in the Company's dividend distribution policy. Total dividend proposed for the year does not exceed the ceilings specified in said circular/RBI Master Directions.

The dividend, if declared, at the ensuing AGM will be taxable in the hands of the members of the Company pursuant to Income Tax Act, 1961. For further details on taxability, please refer Notice of AGM.

The COVID-19 Pandemic

FY2022 was once again dominated by the COVID-19 pandemic as new waves of infection swept across countries. In India, the second wave (called 'Delta') proved far more deadly than the first that struck in 2020.

The advent of the highly transmissible variant 'Omicron' in early January 2022 (the third wave) spread much dread across the world. During this wave, India's daily number of reported cases peaked to nearly 350,000 on 20 January 2022 and the active case load was over 22 million as on 23 January 2022. Fortunately, while highly transmissible, Omicron was not as clinically deadly as Delta. So, while many got infected, almost all got well again within a week or so, without hospitalisation and mortality.

The impact of the second and third wave of the pandemic on the performance of the Company and measures adopted to steer through this continuing crisis have been discussed in detail in [Management Discussion and Analysis](#).

Working Results of the Company

The pandemic induced disruptions continued in FY2022 as well. The first half of FY2022 witnessed a significant impact of the deadly second (Delta) wave of the pandemic – impacting performance of both

business and debt management services. The third wave (Omicron) strain was more transmissible; however, its impact on BFL's operation was limited.

Drawing from its experience of FY2020 and the fact that the lockdowns were curtailed in FY2022, the Company remained open for business with a nuanced strategy on acquisition and underwriting across all its businesses.

As a result, BFL recorded a 29% growth in assets under management or AUM (core AUM growth is 26%) and 59% growth in profit after tax on a consolidated basis in FY2022 versus 4% growth in AUM and 16% de-growth in profit after tax in FY2021. This was despite continued disruption in business and debt management services in the first half of the year, elevated level of credit cost and higher liquidity buffers. Return on average assets (ROAA) and return on average equity (ROAE) for FY2022 was 4.2% and 17.4% respectively on a consolidated basis.

The Company's business model continues to generate healthy pre-impairment operating profits enabling it to withstand higher credit losses in times of stress such as these. It remains well capitalised with a capital-to-risk weighted asset ratio (CRAR) of 27.22% as on 31 March 2022 – making it among the best capitalised large NBFCs in India.

As a result of its deeply embedded risk culture and robust risk management practices, the Company's portfolio quality as of 31 March 2022 continues to remain strong despite of repeated waves of COVID-19. BFL's consolidated Gross NPA at 1.60% and Net NPA at 0.68% are among the lowest in the industry.

Using its robust risk management and portfolio monitoring framework, BFL took enhanced credit costs based on emerging trends across its different portfolios. It holds a management overlay provision for macroeconomic factors and COVID-19 of ₹ 1,060 crore as on 31 March 2022.

The consolidated performance highlights for FY2022 are given below:

- Number of new loans booked: 24.7 million
- Core AUM grew by 26% to ₹ 192,087 crore
- Total income increased by 19% to ₹ 31,640 crore
- Net interest income (NII) rose by 27% to ₹ 21,892 crore
- Total operating cost to NII stood at 34.6%
- Loan losses and provisions was ₹ 4,803 crore
- Profit before tax (PBT) increased by 59% to ₹ 9,504 crore
- Profit after tax (PAT) increased by 59% to ₹ 7,028 crore
- Capital adequacy ratio as of 31 March 2022 was 27.22%, which is well above the RBI norms.
Tier I adequacy ratio was 24.75%

With the experience of managing significant financial and operational disruption emanating from the pandemic, the transformational journey that BFL has embarked upon and the exit momentum of FY2022, the Company remains confident of a sound growth trajectory in FY2023 and thereafter and, hence, remain a leading NBFC in India.

Resilience and agility are deeply embedded in BFL's culture. These cultural anchors have enabled BFL to make swift and calibrated changes to its risk and debt management practices to regain its business momentum while maintaining strong vigil on its portfolio quality and adapting to changing customer preferences of post pandemic world.

For more details on the performance of the Company, business segments and risk management framework and initiatives, please refer [Management Discussion and Analysis](#).

Operations

BFL is one of the largest and most diversified NBFCs in India. It has worked with approximately 57.6 million customers since it started its transformational journey in FY2008 from a mono-line captive lender to a diversified financial service business. During this period, the Company expanded its presence to 3,504 locations with a distribution network of over 133,200 points of sale and also created a strong presence in the digital space.

BFL was among the early movers to transit to digital processes in the financial services industry. It had already moved from 'Physical' to 'Phygital' in a seamless manner and has embarked to move to the last phase, namely 'Digital', in the last four years.

The Company believes that each customer is a critical asset in its growth journey and their satisfaction is BFL's primary responsibility – which it thrives to achieve through an omnichannel strategy. Business transformation requires significant changes in operating processes and core technology stack of the Company. It focuses on building an 'omnichannel' model to deliver significant business velocity, reduction in operating costs and significant improvement in customer experience. This model with an integrated offering of products and services, will enable BFL to become a 'moment of truth' enterprise for its customers.

Further details regarding the operations, state of affairs and initiatives of the Company are given in the [Management Discussion and Analysis](#).

Subsidiaries, Associates and Joint Ventures

The Company has two wholly owned subsidiaries, viz.,

- i. Bajaj Housing Finance Ltd. ('BHFL' or 'Bajaj Housing'), which is registered with National Housing Bank as a Housing Finance Company ('HFC'); and
- ii. Bajaj Financial Securities Ltd. ('BFinsec'), which is registered with the Securities and Exchange Board of India ('SEBI') as a stockbroker and depository participant.

During FY2022, no new subsidiary was incorporated/acquired. The Company does not have any associate company, nor has it entered into a joint venture with any other company.

The financial statements of the subsidiary companies are also available in a downloadable format under the 'Investor Relations' section on the Company's website at <https://www.bajajfinserv.in/finance-investor-relation-annual-reports>

The Company's policy for determination of material subsidiary, as adopted by the Board of Directors, in conformity with regulation 16 of the SEBI Listing Regulations, can be accessed on the Company's website at <https://cms-assets.bajajfinserv.in/is/content/bajajfinance/policy-for-determining-material-subsiidiariespdf?scl=1&fmt=pdf>

In terms of the said policy and provisions of regulation 16 of the SEBI Listing Regulations, BHFL is a material subsidiary of the Company.

Performance highlights of the subsidiaries are given below:

BHFL

- AUM as at 31 March 2022 was ₹ 53,322 crore as compared to ₹ 38,871 crore as at 31 March 2021, representing a growth of 37%
- Total income increased by 19% to ₹ 3,767 crore
- NII rose by 36% to ₹ 1,612 crore
- Total operating cost to NII stood at 29%

- Impairment on financial instruments was ₹ 181 crore. BHFL holds a management overlay provision of ₹ 211 crore as of 31 March 2022 on account of COVID-19 related stress
- Gross NPA and Net NPA were at 0.31% and 0.14%, respectively, amongst the lowest across all HFCs
- PBT increased by 57% to ₹ 960 crore
- PAT grew by 57% to ₹ 710 crore
- As on 31 March 2022, capital adequacy ratio was 19.71%, which is well above the NHB norms of 15%

During FY2022, the Board has approved a capital infusion up to ₹ 2,500 crore to reduce leverage and fund accelerated growth of BHFL.

As on date of this report, the total investment in BHFL is approximately ₹ 7,528 crore.

BFinsec

- The customer franchise as of 31 March 2022 was over 331,000
- Total Income for FY2022 was ₹ 124 crore
- PAT was ₹ 17 crore

In order to support BFinsec to augment its business growth, facilitate working capital requirements, and building proprietary trading book, the Company infused capital to the tune of ₹ 400 crore.

The total investment in BFinsec as on 31 March 2022 is approximately ₹ 670 crore.

For more detailed discussion on the performance of the subsidiaries and their various segments, refer to the [Management Discussion and Analysis](#).

A separate statement containing the salient features of the subsidiaries in the prescribed form AOC-1 is attached to the standalone financial statements.

Bajaj Finserv Direct Ltd. ('BFS-Direct')

BFS-Direct is primarily engaged in business of distribution of financial products through its digital marketplace. BFS-Direct is registered with Insurance Regulatory and Development Authority of India as a composite Corporate Agent for distribution of insurance (life and general) products in India.

During FY2022, the Company along with Bajaj Finserv Ltd., holding company made joint investments in the form of Equity shares and/or Convertible Loan or Security into Equity Shares for an aggregate amount of ₹ 283.16 crore. Out of this, investment in equity share capital of BFS-Direct stands at ₹ 2.69 crore representing 19.90% of its capital.

It may be noted that BFS-Direct is neither a subsidiary nor an associate of the Company.

Details of investment made in BFS-Direct also forms part of the financial statements.

Customer Engagement

The Company is committed to fairness, in both form and spirit, in its conduct with customers. One of the key aims of the Company is to communicate transparently its terms, rights and liabilities to enable them to make prudent financial decision.

In line with the above, the Company strives to create a culture of 'Customer Obsession' and endeavors to provide a frictionless experience across the lifecycle, from pre-disbursal to closure of loan, deposit accepting activities and other value-added services. The Company measures its Net Promoter Score to rate its customer loyalty. This helps the Company to gauge the outcome of its customer engagement efforts.

To strengthen the customer engagement and monitoring process, the Board of Directors have voluntarily constituted a Customer Service Committee, in line with the requirements applicable to Banks. It is headed by an Independent Director. The Committee consists of following Board members:

1. Pramit Jhaveri – Chairman, non-executive, independent
2. Dr. Naushad Forbes – Member, non-executive, independent
3. Sanjiv Bajaj – Member, non-executive, non-independent
4. Rajeev Jain – Member, executive, non-independent

The terms of reference are:

- To oversee and guide implementation of service enhancement initiatives across the Company.
- To review grievance redressal and issues bearing on the quality of services rendered by the Company to its customers, adherence to the Fair Practices Code, review of awards under Ombudsman scheme and implementation of the internal ombudsman policy.

The Committee shall endeavor to meet at least once every six months.

In addition, the Company has in place a Consumer Grievance and Protection Committee consisting of Senior Executives of the Company, *inter alia*, to conduct root cause analysis for complaints and oversee the measures taken for grievance redressal of customers.

The initiatives of the Company towards customer engagement are detailed in the [Management Discussion and Analysis](#).

Risk Management

During the year under review, a revised Risk Management Policy/framework was adopted by the Board. This framework, *inter alia*, provides for principles of risk management, risk governance, organisation structure, business control measures, principle risks and business continuity plan. The Management identifies and controls risks through a defined framework in terms of the aforesaid policy.

The Company continued to closely monitor new acquisitions and product portfolios to navigate through the second and third waves of COVID-19 during the year and maintain risk metrics at pre-covid levels.

Further, in Q3 FY2022, the Company has changed its NPA classification criteria from number of EMI outstanding to Days Past Due approach in line with the RBI circular dated 12 November 2021 – 'Prudential norms on Income Recognition, Asset classification and provisioning pertaining to advances- Clarification'. This change did not cause any negative impact on the Company's Gross Non-Performing Asset.

The current composition of Risk Management Committee ('RMC') is as follows: Anami N Roy, Chairman of the Committee (Independent Director), Sanjiv Bajaj (non-executive, non-independent director), Pramit Jhaveri (Independent Director), Rajeev Jain (Managing Director), Fakhari Sarjan (Chief Risk Officer), Sandeep Jain (Chief Financial Officer) and Deepak Bagati (President - Debt Management Services). Further details on RMC is furnished in [Corporate Governance Report](#).

More detailed discussion on the Company's risk management and portfolio quality is covered in the [Management Discussion and Analysis](#).

Business Continuity and Cyber Security

The Company continues to leverage its technological capabilities and operate in a hybrid model based on business roles and requirements. Multiple facilities like virtual private networks, laptops for employees, higher bandwidth availability and digital collaboration platforms etc. have enabled and facilitated operations in the 'Work-from-Home' protocol where required. The Company continues to offer remote access for identified IT

vendors/partners to enable full resources for user support, data centre support, application maintenance and testing. All key IT systems are compliant to ISO 22301 Business Continuity Standard. Simultaneously, the Company has initiated a phase-wise launch of its 3-in-1 application and continues its journey to become a digital organisation.

The Company operates all its critical internet-facing properties behind a well-known cloud-based web application firewall to safeguard against web application attacks as well as distributed denial of service attacks. Further, regular vulnerability assessment and penetration testing, review of segregation of duties, other audit and compliance testing(s) have ensured that the Company's information assets are safe and secure.

As a part of the brand protection efforts and to safeguard customer's interest, the Company constantly monitors and, where needed, removes inappropriate/misleading social media pages. An awareness programme is conducted for all employees using the digital channel regarding cyber security. Public awareness campaign '*Savdhan Rahein. Safe Rahein*' was launched across digital and social media platforms to educate customers and the public at large on financial fraud risks and how to stay protected. Employees of the Company are required to undergo a mandatory online learning module on information security and affirm that they have understood these and are aware of the protocols to be followed. Regular information security related mailers are sent to all employees for awareness and training purpose.

The Company will continue its focus on security monitoring and incident response through its security operations center.

A detailed discussion on information systems, cyber security and information technology is covered under [Management Discussion and Analysis](#).

Directors and Key Managerial Personnel ('KMP')

A. Change in Directorate

i. Resignation:

Dr. Omkar Goswami with effect from 9 July 2021, and Ranjan Sanghi and Dr. Gita Piramal with effect from close of business hours on 30 April 2022 resigned as non-executive independent director of the Company. The Board places on record its sincere appreciation for the valuable contribution made by them during their tenure on the Board.

ii. Appointment:

- On recommendation of Nomination and Remuneration Committee ('NRC'), the Board has appointed Prमित Jhaveri as an independent director of the Company for a period of five consecutive years effective 1 August 2021. Further, shareholders have approved his appointment through a postal ballot on 17 November 2021.

The Board is of the opinion that Prमित Jhaveri is a person of integrity, expertise, and has competent experience to serve the Company as an independent director.

Prमित Jhaveri served as CEO of Citibank N.A. for over a decade. However, this position not being one of the categories exempting such persons from appearing in proficiency test as per Companies (Appointment and Qualifications of Directors) Rules, 2014, as amended, he will undertake the test within the prescribed time limit.

- The Board, at its meeting held on 26 April 2022, based on the recommendation of NRC, appointed Radhika Haribhakti as an additional director and independent director for a period of five consecutive years with effect from 1 May 2022.

The Board is of the opinion that Radhika Haribhakti is a person of integrity, expertise, and has relevant experience to serve the Company as an independent director.

Radhika Haribhakti is exempted from requirements of clearing the online proficiency test pursuant to rule 6(4) of Companies (Appointment and Qualifications of Directors) Rules, 2014, as amended. However, she has on a voluntary basis appeared and cleared the proficiency test.

iii. Retirement:

Dipak Poddar ceased to be a Director of the Company from the close of business hours on 31 March 2022, upon completion of his second term as an independent director.

The Board places on record its sincere appreciation for the valuable service and contribution made by him during his long association with the Company.

B. Directors liable to retire by rotation

Rajeev Jain retires by rotation at the ensuing AGM, being eligible, offers himself for re-appointment. Brief details of Rajeev Jain, who is seeking re-appointment, are given in the Notice of AGM.

C. KMPs

There was no change in the KMPs of the Company during FY2022.

Declaration by Independent Directors

The independent directors have submitted a declaration of independence, stating that they meet the criteria of independence provided under section 149(6) of the Act read with regulation 16 of the SEBI Listing Regulations, as amended. The independent directors have also confirmed compliance with the provisions of rule 6 of Companies (Appointment and Qualifications of Directors) Rules, 2014, as amended, relating to inclusion of their name in the databank of independent directors.

The Board took on record the declaration and confirmation submitted by the independent directors regarding them meeting the prescribed criteria of independence, after undertaking due assessment of the veracity of the same in terms of the requirements of regulation 25 of the SEBI Listing Regulations.

Policy on Directors' Appointment and Remuneration

On recommendation of the NRC, the Board has framed a Remuneration Policy. This policy, *inter alia*, provides

- (a) The criteria for determining qualifications, positive attributes and independence of directors; and
- (b) Policy on remuneration of directors, key managerial personnel and other employees.

The policy is directed towards a compensation philosophy and structure that will reward and retain talent; and provides for a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the working of the Company and its goals.

The Remuneration Policy is available on the Company's website and can be accessed at <https://cms-assets.bajajfinserv.in/is/content/bajajfinance/remuneration-policy.pdf?scl=1&fmt=pdf>

As per the requirements of the RBI Master Directions and SEBI Listing Regulations, details of all pecuniary relationship or transactions of the non-executive directors vis-à-vis the Company are disclosed in the [Corporate Governance Report](#).

Compliance with Code of Conduct

All Board members and senior management personnel have affirmed compliance with the Company's Code of Conduct for FY2022.

A declaration to this effect signed by the Managing Director is included in this Annual Report.

Annual Return

A copy of the Annual Return as provided under section 92(3) of the Act, in the prescribed form, which will be filed with the Registrar of Companies/MCA, is hosted on the Company's website and can be accessed at <https://www.bajajfinserv.in/finance-investor-relation-annual-reports>

Number of Meetings of the Board

Six (6) meetings of the Board were held during FY2022. Details of the meetings and attendance thereat forms part of the [Corporate Governance Report](#).

Directors' Responsibility Statement

The financial statements are prepared in accordance with the Indian Accounting Standards (Ind AS) under historical cost convention on accrual basis except for certain financial instruments, which are measured at fair values pursuant to the provisions of the Act and guidelines issued by SEBI/RBI. Accounting policies have been consistently applied except where a newly issued Accounting Standard is initially adopted or a revision to an existing Accounting Standard requires a change in the accounting policy. These form a part of the Notes to the financial statements.

In accordance with the provisions of section 134(3)(c) of the Act and based on the information provided by the Management, the directors state that:

- i. in the preparation of the annual accounts, the applicable Accounting Standards have been followed along with proper explanation relating to material departures;
- ii. they have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for FY2022;
- iii. they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv. they have prepared the annual accounts on a going concern basis;
- v. they have laid down internal financial controls to be followed by the Company and that such internal financial controls are adequate and are operating effectively; and
- vi. they have devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems are adequate and are operating effectively.

Audit Committee

During the year under review, consequent to resignation of Dr. Omkar Goswami, the Audit Committee was re-constituted to induct Anami N Roy as member and Chairman in his place. Further, Pramit Jhaveri was inducted as member of the Committee effective 1 August 2021.

The present composition of the Committee is Anami N Roy as Chairman and Sanjiv Bajaj, Dr. Naushad Forbes and Pramit Jhaveri as other members.

During FY2022, all recommendations of the Audit Committee were accepted by the Board.

The brief terms of reference and attendance record of members are given in the [Corporate Governance Report](#).

Particulars of Loans, Guarantees and Investments

The Company, being an NBFC registered with the RBI and engaged in the business of giving loans in ordinary course of its business, is exempt from complying with the provisions of section 186 of the Act with respect to loans and guarantees. Accordingly, the disclosures of the loans given as required under the aforesaid section have not been made in this Report.

In addition to investment in subsidiaries and group companies which is covered above, details of major investments in other companies are under:

1. One MobiKwik Systems Ltd. ('MobiKwik'):

Pursuant to a commercial agreement with MobiKwik, the Company was allotted 15,389 compulsorily convertible cumulative preference shares, in tranches, against receivables aggregating approximately to ₹ 15.67 crore. Total investment in MobiKwik as on 31 March 2022 is approximately ₹ 296.89 crore.

Further, MobiKwik sub-divided equity shares of face value of ₹ 10 to face value of ₹ 2 and issued bonus shares in the ratio of 1:3.

The total equity shares held by the Company in MobiKwik is 7,979,440 equity shares (post giving effect to sub-division and bonus) representing 13.95% of its capital on a fully diluted basis.

During FY2022, MobiKwik has received in-principle approval from SEBI in respect of an Initial Public Offer (IPO). The IPO size is ₹ 1,900 crore, out of which the Offer for Sale (OFS) pool is approximately ₹ 400 crore. The Company has expressed its intention to participate in the OFS to the extent permissible under SEBI Regulations.

2. RBL Bank Ltd.:

The Company continues to stay invested in RBL Bank Ltd. Information regarding investments covered under the provisions of section 186 of the Act is detailed in the financial statements.

Employee Stock Options ('ESOP')

The Company offers stock options to select employees to foster a spirit of ownership and an entrepreneurial mindset. Because of their nature, stock options help to build a holistic, long-term view of the business and a sustainability focus in the senior management team. Stock options are granted to tenured employees in managerial and leadership positions upon achieving defined thresholds of performance and leadership behaviour. This has contributed to the active involvement of the leadership and senior team who are motivated to ensure long-term success of the Company. Grant of stock options also allow the Company to be conservative in awarding fixed pay, balance short-term incentives with risk considerations and build the focus on consistent long-term results.

During FY2022, number of options that could be granted under the scheme was enhanced by 10,000,000 stock options convertible into 10,000,000 equity shares of the face value of ₹ 2 fully paid-up. Total option that could be granted under the scheme stands revised from 25,071,160 options (adjusted for sub-division and bonus) to 35,071,160 options. The treatment of unvested and vested options at the time of retirement has also been amended during the year under review.

A statement giving complete details, as at 31 March 2022, under regulation 14 of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021, is available on the website of the Company and can be accessed at <https://www.bajajfinserv.in/finance-investor-relation-annual-reports>

The Employee Stock Option Scheme, 2009 adopted by the Company is in line compliance with provisions of SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021.

Grant wise details of options vested, exercised and cancelled are provided in the notes to the standalone financial statements.

The Company has not issued any sweat equity shares or equity shares with differential voting rights during FY2022.

Share Capital

During FY2022, 2,841,894, equity shares, at applicable grant prices, were allotted to BFL Employee Welfare Trust under the BFL Employee Stock Options Scheme, 2009.

As on 31 March 2022, the paid-up share capital of the Company stood at ₹ 121.09 crore consisting of 605,429,233 equity shares of face value of ₹ 2 fully paid-up.

Related Party Transactions

All contracts/arrangement/transactions entered by the Company during FY2022 with related parties were in compliance with the applicable provisions of the Act and SEBI Listing Regulations. Prior omnibus approval of the Audit Committee is obtained for all related party transactions which are foreseen and of repetitive nature. Pursuant to the said omnibus approval, details of transaction entered into is also reviewed by the Audit Committee on a quarterly basis.

All related party transactions entered during FY2022 were on arm's length basis and not material under the Act and SEBI Listing Regulations. None of the transactions required members' prior approval under the Act or SEBI Listing Regulations.

Details of transactions with related parties during FY2022 are provided in the notes to the financial statements. There were no transaction requiring disclosure under section 134(3)(h) of the Act. Hence, the prescribed Form AOC-2 does not form a part of this report.

The policy on materiality of related party transactions and on dealing with related party transactions was amended in line with SEBI (Listing Obligations and Disclosure Requirements) (Sixth Amendment) Regulations, 2021. The policy is available on the website of the Company at <https://cms-assets.bajajfinserv.in/is/content/bajajfinance/policy-of-materiality-and-dealing-with-related-party-transactionpdf?scl=1&fmt=pdf> and also forms a part of the [Corporate Governance Report](#).

Material Changes and Commitments

There were no material changes and commitments affecting the financial position of the Company which occurred between the end of the financial year and the date of this report.

Conservation of Energy

The operations of the Company are not energy intensive. The Company implements various energy conservation measures across all its functions and value chain, which are highlighted in the Business Responsibility and Sustainability Report.

Technology Absorption

The details pertaining to technology absorption have been explained in the [Management Discussion and Analysis](#).

Considering the nature of services and businesses, no specific amount of expenditure is earmarked for Research and Development. However, the Company on an ongoing basis strives for various improvements in the products, platforms and processes.

Foreign Exchange Earnings and Outgo

During FY2022, the Company did not have any foreign exchange earnings and the foreign exchange outgo in terms of actual outflow amounted to ₹ 177.04 crore.

Corporate Social Responsibility ('CSR')

The CSR Committee comprises of three directors viz., Dr. Naushad Forbes, Sanjiv Bajaj and Rajeev Jain. The Board at its meeting held on 26 October 2021 has appointed Dr. Naushad Forbes as Chairman of the Committee with effect from 27 October 2021.

The CSR obligation of the Company for FY2022 is ₹ 120.89 crore (after adjustment). As on 31 March 2022, total amount spent on CSR activities by Company is ₹ 60.01 crore.

As per section 135 of the Act read with Companies (Corporate Social Responsibility) Rules, 2014, as amended, the Company is required to transfer any unspent amount, pursuant to any ongoing project undertaken by the Company in pursuance of its Corporate Social Responsibility Policy, within a period of thirty days from the end of the financial year to a special account opened by the Company in that behalf for that financial year in any scheduled bank called Unspent Corporate Social Responsibility Account.

Some part of the mandatory obligations for FY2022 remained unspent as the funding for ongoing projects were delayed/reduced on account of COVID-19 pandemic and lockdowns. Besides, few pertaining to COVID relief did not require anticipated funds as the third wave was not as severe as estimated, thereby requiring it to be transferred to an Unspent Corporate Social Responsibility Account. Accordingly, the Company has opened necessary bank account to transfer unspent amount of ₹ 60.88 crore.

Detailed information on CSR Policy, its salient features, CSR initiatives undertaken during the year, details pertaining to spent and unspent amount forms part of [Annual Report on CSR activities](#).

The CSR policy has been hosted on the website of the Company and can be accessed at <https://cms-assets.bajajfinserv.in/is/content/bajajfinance/corporate-social-responsibilitypdf?scl=1&fmt=pdf>

Further, Chief Financial Officer has certified that the funds disbursed have been utilised for the purpose and in the manner approved by the Board for FY2022.

Formal Annual Evaluation

Pursuant to section 178 of the Act, the NRC and the Board has decided that the evaluation shall be carried out by the Board only and the NRC will only review its implementation and compliance.

Further, as per Schedule IV of the Act and provisions of SEBI Listing Regulations, the performance evaluation of independent directors shall be done by the entire Board excluding the directors being evaluated, on the basis of performance and fulfillment of criteria of independence and their independence from Management. On the basis of the report of the performance evaluation, it shall be determined whether to extend or continue the term of appointment of independent director.

Accordingly, the Board has carried out an annual performance evaluation of its own performance, that of its Committees, Chairperson and individual directors.

The manner in which formal annual evaluation of performance was carried out by the Board for the year 2021-22 is given below:

- The NRC at its meeting held on 19 May 2020, reviewed the criteria for performance evaluation. The criteria is available on the website of the Company at <https://cms-assets.bajajfinserv.in/is/content/bajajfinance/performance-evaluation-criteria-for-board-committees-of-board-chairperson-and-directorspdf?scl=1&fmt=pdf>

- Based on the said criteria, a questionnaire-cum-rating sheet was deployed using an IT platform for seeking feedback of the directors with regards to the performance of the Board, its Committees, the Chairperson and individual directors.
- From the individual ratings received from the directors, a report on summary of ratings in respect of performance evaluation of the Board, its Committees, Chairperson and individual directors for the year 2021-22 and a consolidated report thereof were arrived at.
- The report of performance evaluation so arrived at was then discussed and noted by the Board at its meeting held on 14 March 2022.
- The NRC reviewed the implementation and compliance of the performance evaluation at its meeting held on 14 March 2022.
- Based on the report and evaluation, the Board and NRC at their respective meetings held on 14 March 2022, determined that the appointment of all independent directors may continue.
- Details on the evaluation of Board, non-independent directors and Chairperson of the Company as carried out by the independent directors at their separate meeting held on 14 March 2022 have been furnished in a separate paragraph elsewhere in this report.
- During FY2022, the criteria and process followed by the Company was reviewed by the NRC, which opined these to be satisfactory.

Other than Chairman of the Board and NRC, no other Director has access to the individual ratings given by directors.

Significant and Material Orders

During FY2022, there were no significant or material orders passed by any regulator or court or tribunal impacting the going concern status and Company's operations in future.

Internal Financial Controls

Internal Financial Controls laid down by the Company is a systematic set of controls and procedures to ensure orderly and efficient conduct of its business including adherence to the Company's policies, safeguarding of its assets, prevention and detection of frauds and errors, accuracy and completeness of the accounting records and timely preparation of reliable financial information. Internal financial controls not only require the system to be designed effectively but also to be tested for operating effectiveness periodically.

The Board is of the opinion that internal financial controls with reference to the financial statements were tested and reported adequate and operating effectively. The internal financial controls are commensurate with the size, scale and complexity of operations.

Deposits

The Company accepts deposits from retail and corporate clients. As on 31 March 2022, it had a standalone deposit book of ₹ 30,289.52 crore, delivering an annual growth of 17.39% in FY2022. Deposits contributed to 24.62% of BFL's standalone borrowings versus 25.84% as at the end of FY2021.

The consolidated deposits book as on 31 March 2022 stood at ₹ 30,800 crore, delivering an annual growth of 19% in FY2022. Deposit contributed to 19% of its consolidated borrowings as on versus 20% at the end of FY2021.

During FY2022, the Company accepted public deposits of ₹ 9,264.53 crore. Public deposits outstanding as at the end of the year aggregated to ₹ 21,184.07 crore.

Pursuant to provisions of the RBI Act, 1934, the Company has created a charge on statutory liquid assets amounting to ₹ 3,910.12 crore in favour of the trustee for Fixed Deposit ('FD') holders.

During FY2022, the Company accepted corporate deposits (CDs) of ₹ 17,383.16 crore. CDs outstanding as on 31 March 2022 were ₹ 4,253.48 crore.

During FY2022, the Company accepted other deposits of ₹ 4,094.15 crore. Other deposit outstanding as on 31 March 2022 were ₹ 4,851.58 crore.

During FY2022, there was no default in repayment of deposits or payment of interest thereon.

With a view to reduce unclaimed amount of fixed deposits, the Company adopted the following process:

- Wherever payment of deposit amount and interest thereon is rejected by bank of the deposit holder, Customer Service Team calls the depositor to inform about rejection reason and advise them the process for change of linked bank account;
- In addition, SMS/Email/Physical letter are also sent to depositors to inform them of rejection reason(s) and advise them to initiate appropriate action for change of bank details;
- Account payee cheque in the name of the customer for unclaimed amount is dispatched at customer's communication address (excluding deceased cases, where settlement is to be done as per nomination/survivorship clause);
- In case of death of depositors, claim settlement process is advised to joint depositors/nominee/legal heir, as the case may be;
- Wherever the residential status of the depositors has changed from Resident to Non-Resident, they are advised to submit updated FATCA/CRS declaration and to get their bank details updated; and
- Assistance of Risk Containment Unit is sought to seek whereabouts of the customer, wherever latter remains untraceable.

As on 31 March 2022, there were 23 FDs amounting to ₹ 33.96 lakh which had matured and remained unclaimed and interest on matured deposits amounting to ₹ 1.89 lakh and interest on active deposits amounting to ₹ 2.94 lakh had also remained unclaimed.

Borrowings

During FY2022, the Company has increased the borrowing limit from ₹ 160,000 crore to ₹ 225,000 crore vide special resolution passed by the members on 2 March 2022.

The total borrowing as on 31 March 2022 is ₹ 123,040.25 crore. The breakup of the same is as under:

Particulars	Deposits	Bank Loans (TL/CC/OD/ WCDL)	Non- Convertible Securities	Subordinate Debt	Short-term Borrowings	External Commercial Borrowing
Amount (₹ in crore)	30,289.52	22,348.78	52,608.53	3,845.77	8,425.21	5,522.44
% to total borrowing	25%	18%	43%	3%	7%	4%

The Company had established a Secured Euro Medium Term Note Programme for USD 1.5 billion listed on Singapore Exchange Securities Trading Ltd. during FY2020, to be utilised over a period.

Credit Rating

S&P Global Ratings have revised the credit rating outlook of the Company to 'Positive' from 'Stable' while reaffirming the Long-Term Rating at 'BB+' and Short-Term Rating at 'B' on 30 March 2022 on the ground of Company's continued sound financial performance.

The brief details of the ratings received from credit rating agencies by the Company for all its outstanding instruments is given in [General Shareholder Information](#).

Whistle Blower Policy/Vigil Mechanism

The Company has a Whistle Blower Policy encompassing vigil mechanism pursuant to the requirements of the section 177(9) of the Act and regulation 22 of the SEBI Listing Regulations. The whistle blower framework has been introduced with an aim to provide employees, directors and value chain partners with a safe and confidential channel to share their inputs about such aspects which are adversely impacting their work environment. The policy/vigil mechanism has been revised recently and enables directors, employees and value chain partners to report their concerns about unethical behaviour, actual or suspected fraud or violation of the Company's Code of Conduct or ethics policy and leak or suspected leak of unpublished price sensitive information.

The concerns may be reported anonymously either through email or through a 'Confidential Feedback Mechanism', which is reviewed by a Whistle Blower Committee comprising senior management representatives from within and outside the organisation. The Audit Committee reviews the functioning of the vigil mechanism/Whistle Blower Policy once a year.

The Whistle Blower Policy is uploaded on the website of the Company and can be accessed at <https://cms-assets.bajajfinserv.in/is/content/bajajfinance/whistle-blower-policy-v2pdf?scl=1&fmt=pdf>

More details are given in [Corporate Governance Report](#).

Independent Directors' Meeting

Pursuant to the Act and SEBI Listing Regulations, the independent directors must hold at least one meeting in a financial year without attendance of non-independent directors and members of the Management. Accordingly, independent directors of the Company met on 14 March 2022 and:

- noted the report of performance evaluation from the Chairman of the Board for the year 2021-22;
- reviewed the performance of non-independent directors and the Board as a whole;
- reviewed the performance of the Chairman of the Board, taking into account the views of executive directors and non-executive directors; and
- assessed the quality, quantity and timeliness of flow of information between the Company's Management and the Board that is necessary for the Board to effectively and reasonably perform their duties.

The independent directors present elected Dr. Naushad Forbes as Chairman for the meeting. All independent directors were present at the meeting, except Dr. Gita Piramal to whom the leave of absence was granted.

In addition, the independent directors have a separate meeting with the senior management team (SMT), during which the SMT is encouraged to express its views and concerns pertaining to the business. Suggestions from the directors are noted by the Management.

RBI Guidelines

The Company continues to fulfil all the norms and standards laid down by RBI pertaining to non-performing assets, capital adequacy, statutory liquidity assets, etc. As against the RBI norm of 15%, the capital to risk-weighted assets ratio of the Company was 27.22% as on 31 March 2022. In line with the RBI guidelines for asset liability management (ALM) system for NBFCs, the Company has an asset liability committee, which meets monthly to review its ALM risks and opportunities. Further, BFL exceeds the regulatory requirement of liquidity coverage ratio (LCR) introduced by the RBI in FY2020. As against the LCR requirement of 60%, BFL's LCR as on 31 March 2022 was 134%.

The Company continues to be in compliance with the Master Direction for Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

Corporate Governance

In terms of the SEBI Listing Regulations, a separate section titled [Report on Corporate Governance](#) has been included in this Annual Report, along with the [Management Discussion and Analysis](#) and report on [General Shareholder Information](#).

The Managing Director and the Chief Financial Officer have certified to the Board in relation to the financial statements and other matters as specified in the SEBI Listing Regulations.

A certificate from auditors of the Company regarding compliance of conditions of corporate governance is annexed to this Report.

Business Responsibility and Sustainability Report ('BRSR')

Pursuant to amendment in SEBI Listing Regulations, top 1,000 listed entities based on market capitalisation are required to submit a BRSR with effect from the FY2023. However, these top 1,000 listed entities may voluntarily adopt to submit the BRSR for FY2022 in place of Business Responsibility Report.

Accordingly, the Company has adopted a Policy on BRSR and other ESG initiatives. A detailed BRSR in the format prescribed by SEBI describing various initiatives, actions and process of the Company towards the ESG endeavor has been hosted on Company's website and can be accessed at <https://www.bajajfinserv.in/finance-investor-relation-annual-reports>

Secretarial Standards of ICSI

The Company has complied with the requirements prescribed under the Secretarial Standards on meetings of the Board of Directors (SS-1) and General Meetings (SS-2) read with the MCA circulars granting exemptions in view of the COVID-19 pandemic.

Internal Audit

The internal audit function provides an independent view to the Board of Directors, the Audit Committee and the Senior Management on the quality and efficacy of the internal controls, governance systems and processes. In line with the RBI's guidelines on Risk Based Internal Audit, the Company has adopted a Risk Based Internal audit policy.

At the beginning of each financial year, an audit plan is rolled out after approval of the Audit Committee. Pursuant to Risk Based Internal Audit Framework, internal audit is aligned in such a manner that assurance is provided to the Audit Committee and Board of Directors on quality and effectiveness of the internal controls, and governance related systems and processes.

The Audit Committee regularly reviews the internal audit reports and the adequacy and effectiveness of internal controls. Significant audit observations, corrective and preventive actions thereon are presented to the Audit Committee on a quarterly basis.

Statutory Auditors

Reserve Bank of India, through its circular dated 27 April 2021, issued Guidelines for Appointment of Statutory Auditors (the 'Guidelines'/circular), mandating NBFCs (including HFCs) with an asset size of ₹ 15,000 crore and above to appoint minimum two audit firms as joint auditors for a continuous period of three years. Further, the Guidelines also specifies that an auditor who has completed a period of three years (counted as one tenure) as on the date of the circular shall not be eligible for re-appointment in the same entity for six years (two tenures) after completion of one tenure of three years. Subsequently, the RBI had also released Frequently Asked Questions (FAQs) dated 11 June 2021, *inter alia*, clarifying that the existing statutory auditors who have completed three years with an entity would not be able to continue as auditors with effect from second half of FY2022, even though they may not have completed their present tenure as approved by the Members of the said entity.

In terms of section 139 of the Act, S R B C & CO LLP, Chartered Accountants, (Firm Registration No. 324982E/E300003) ('SRBC') were appointed as Statutory Auditors of the Company for a period of five consecutive years to hold office from the conclusion of the 30th AGM of the Company till the conclusion of the 35th AGM.

Given the RBI guidelines stated above, SRBC being ineligible to continue as Statutory Auditors of the Company for FY2022, and had, therefore, tendered their resignation effective from 13 November 2021.

In line with the RBI requirements, the Board of Directors, based on the recommendation of the Audit Committee, at their meeting held on 16 September 2021, have proposed the appointment of Deloitte Haskins & Sells, Chartered Accountants, (Firm Registration No. 302009E) ('Deloitte') and G. M. Kapadia & Co., Chartered Accountants, (Firm Registration No.104767W) ('G. M. Kapadia') as Joint Statutory Auditors for a period of 3 years to conduct audit of the financial statements of the Company for the financial years 2022, 2023 and 2024.

Pursuant to the provisions of section 139(8) of the Act, members of the Company have approved appointment of Deloitte and G. M. Kapadia as Joint Statutory Auditors effective 17 November 2021 till conclusion of 35th AGM. In the ensuing AGM, approval of the members is being sought for their appointment as Joint Statutory Auditor for remaining two terms from the conclusion of the 35th AGM till the conclusion of the 37th AGM for the financial year ending 31 March 2023 and 31 March 2024 respectively.

The audit report given by Deloitte and G.M. Kapadia, Joint Statutory Auditors for FY2022 is unmodified, i.e., it does not contain any qualification, reservation or adverse remark or disclaimer.

In terms of the RBI Master Directions – Non-Banking Financial Companies Auditors' Report (Reserve Bank) Directions, 2016, the previous auditors have also submitted an additional report dated 17 July 2021, for FY2021 which has been filed with RBI. There were no comments or adverse remarks in the said report as well.

Secretarial Auditor

Pursuant to the provisions of section 204 of the Act and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the Board has appointed Shyamprasad D. Limaye, Practicing Company Secretary (FCS No. 1587, CP No. 572), to undertake secretarial audit of the Company.

A report from the secretarial auditor in the prescribed Form MR-3 is annexed to this Report.

As per regulation 24A(1) of SEBI Listing Regulations, a listed company is required to annex a secretarial audit report of its material unlisted subsidiary to its Annual Report. The secretarial audit report of BHFL, a material subsidiary (a high value debt listed company) for FY2022 is annexed herewith.

In addition, secretarial audit report pursuant to section 204 of the Act for BFinsec, a non-material subsidiary is also annexed herewith.

Pursuant to regulation 24A(2) of SEBI Listing Regulations, a report on secretarial compliance for FY2022 has been issued by Shyamprasad D. Limaye and the same will be submitted with the stock exchanges within the given timeframe. The report will be made available on the website of the Company.

There are no observations, reservations or qualifications or adverse remark in any of the aforesaid reports.

Other Statutory Disclosures

- The financial statements of the Company and its subsidiaries are placed on the Company's website at <https://www.bajajfinserv.in/finance-investor-relation-annual-reports>
- Details required under the provisions of section 197(12) of the Act read with rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, as amended, containing, *inter alia*, the ratio of remuneration of directors to median remuneration of employees, percentage increase in the median remuneration, are annexed to this Report.
- Details of top ten employees in terms of the remuneration and employees in receipt of remuneration as prescribed under rule 5(2) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, as amended, containing details prescribed under rule 5(3) of the said rules, which form part of the Directors' Report, will be made available to any member on request, as per provisions of section 136(1) of the Act.
- The Company being an NBFC, the provisions relating to Chapter V of the Act, i.e., acceptance of deposit, are not applicable. Disclosures as per NBFC regulations have been made in this Annual Report.
- The auditors, i.e., statutory auditors and secretarial auditors have not reported any matter under section 143(12) of the Act, and therefore, no details are required to be disclosed under section 134(3)(ca) of the Act.
- The provision of section 148 of the Act relating to maintenance of cost records and cost audit are not applicable to the Company.
- The Company has a policy on prevention of sexual harassment at the workplace. The Company has complied with the provisions relating to the constitution of Internal Complaints Committee under Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013. The number of complaints received, disposed off and pending during FY2022 is given in the [Corporate Governance Report](#).
- There is no change in the nature of business of the Company during FY2022.
- The securities of the Company were not suspended from trading during the year on account of corporate actions or otherwise.
- The Company has not defaulted in repayment of loans from banks and financial institutions. There were no delays or defaults in payment of interest/principle of any of its debt securities.
- During FY2022, the Company has issued non-convertible debenture to the tune of ₹ 16,650 crore and redeemed non-convertible debentures and subordinate debt to the tune of ₹ 2,182 crore and ₹ 50 crore respectively.
- The Managing Director, as per the terms of his appointment, does not draw any commission or remuneration from subsidiary company. Hence, no disclosure as required under section 197(14) of the Act has been made.
- As on 31 March 2022, there is no amount remaining unclaimed in respect of non-convertible debentures.
- Neither any application was made, nor any proceeding is pending under the Insolvency and Bankruptcy Code, 2016 against the Company.
- During FY2022, there was no instance of one-time settlement with Banks or Financial Institutions. Therefore, as per rule 5(xii) of Companies (Accounts) Rules, 2014, reasons of difference in the valuation at the time of one-time settlement and valuation done while taking loan from the Banks or Financial Institutions are not reported.
- Disclosures pursuant to RBI Master Directions, unless provided in the Directors' Report, form part of the notes to the standalone financial statements.

Acknowledgement

The Board of Directors places its gratitude and appreciation for the support and cooperation from its members, the RBI and other regulators, banks, financial institutions, trustees for debenture holders and fixed deposit holders.

The Board of Directors also places on record its sincere appreciation for the commitment and hard work put in by the Management and the employees of the Company and its subsidiaries and thanks them for yet an excellent year of performance.

On behalf of the Board of Directors



Sanjiv Bajaj
Chairman

Pune: 26 April 2022