

# MANAGEMENT DISCUSSION AND ANALYSIS

Bajaj Finance Ltd. ('BFL', 'Bajaj Finance', or 'the Company'), a subsidiary of Bajaj Finserv Ltd., is a deposit-taking Non-Banking Financial Company (NBFC-D) registered with the Reserve Bank of India (RBI) and is classified as an NBFC-Investment and Credit Company (NBFC-ICC). BFL is engaged in the business of lending and acceptance of deposits. It has a diversified lending portfolio across retail, SMEs, and commercial customers with significant presence in both urban and rural India. It accepts public and corporate deposits and offers variety of financial services products to its customers.

BFL has two wholly owned subsidiaries i.e. (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 Stock Broker and Depository Participants.

Bajaj Finance was originally incorporated as Bajaj Auto Finance Ltd. on 25 March 1987 as a Non-Banking Financial Company primarily focused on providing two and three-wheeler finance. After over a decade in the auto finance market, it launched its initial public offering of equity share and listed on the Bombay Stock Exchange and National Stock Exchange of India. Subsequently, the Company ventured into consumer lending, SME (small and medium-sized enterprises) lending, commercial lending, rural lending, deposits, and wealth management.

BFL, a thirty-five-year old enterprise, has now become a leading player in the NBFC sector in India. On a consolidated basis, it has a franchise of 57.6 million customers; its assets under management stands at ₹ 197,452 crore; it earned a net interest income of ₹ 21,892 crore; profit after tax of ₹ 7,028 crore; and enjoys capital adequacy in excess of 27%, which is well above the RBI norms.

## The COVID-19 Pandemic

The beginning of financial year 2021-22 (FY2022) was once again dominated by the COVID-19 pandemic as new waves of infection swept across the world. In India, the second wave (called 'Delta') proved far more lethal than the first that struck in 2020. After a shaky start in some places, the vaccine immunisation programme by the Indian Government and Governments across the world has been exemplary. It saved lives and livelihood.

The highly transmissible variant 'Omicron' in early January 2022 (the third wave) spread rapidly across the world. During this wave, India's daily number of reported cases peaked to nearly 350,000 on 20 January 2022. Faced with the prospect of yet more lockdowns, there was fear that the world would face yet another year of slow economic growth. Fortunately, while highly transmissible, Omicron was not as lethal as Delta. So, while many got infected, fatality rate was fortunately low.

The world did not see a re-run of massive drop in GDP as witnessed in financial year 2020-21 (FY2021). Thanks to a huge vaccination drive and the preparedness to deal with COVID-19 as a way of life people, firms and both the Central and State Governments sensibly dealt with the virus. Consequently, the strong link between COVID-19 waves and fall in GDP growth seem to have considerably reduced. As long as the new variants are like Omicron, we should have less to worry about mass hospitalisations, high mortality, multiple lockdowns and lower growth.

This pandemic has inflicted enormous pain and suffering to individuals and corporates alike across the world. However, it gave the world an opportunity to reinvent itself to adapt to new ways of life and business. COVID-19 was a real test of resilience and agility for every business. Corporations that have successfully adapted the challenges thrown by COVID-19 have become more resilient and prepared to weather future disruptions. It was not just the corporate sector that has been forced to rapidly adapt. Public services organisations, regulators, governments, and local administrations have demonstrated their potential to adapt and overcome.

## Macroeconomic Overview

The Indian economy had begun to recover since the second half of FY2021. Thus, FY2022 began with an expectation that we would soon see GDP surpass the pre-pandemic level of the financial year 2019-20 (FY2020). That has just about been the case, as Chart A shows. Despite the recovery, we as a nation have still lost two years of GDP growth.

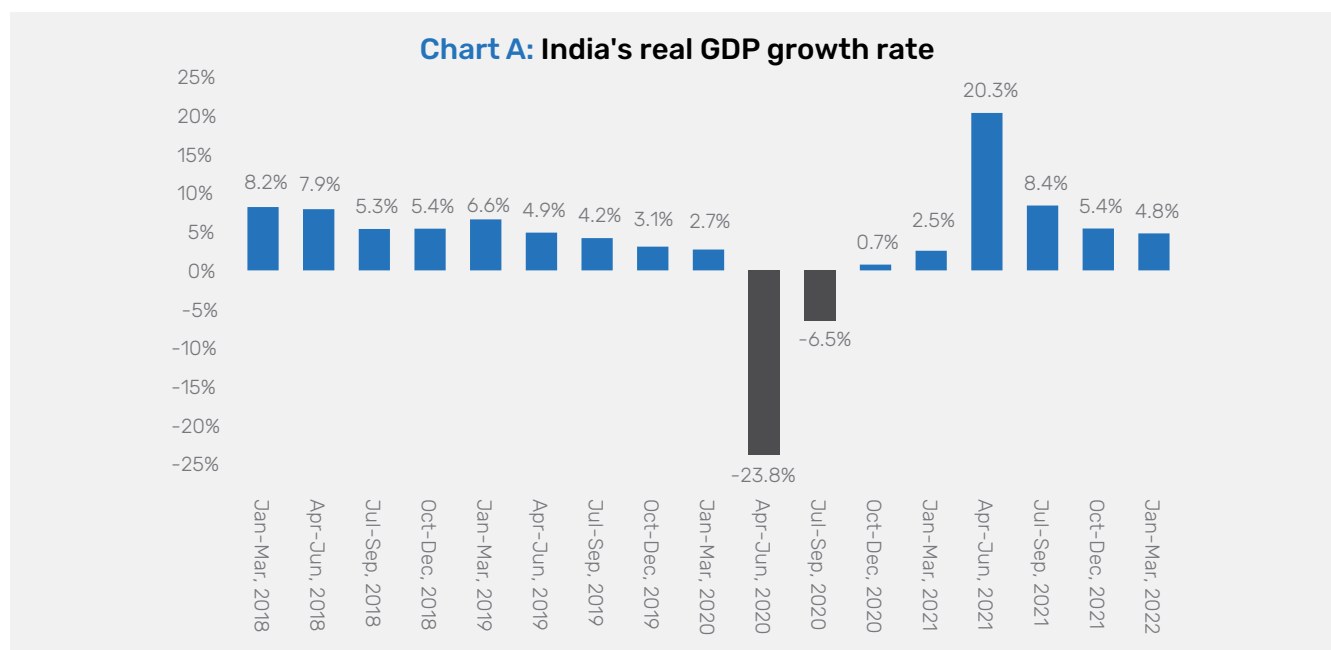
Table 1 gives the data on real GDP and Gross value added (GVA) and growth for the last four financial years.

**Table 1: Real GDP and GVA and growth, India**

	FY2019 (2 <sup>nd</sup> RE)	FY2020 (2 <sup>nd</sup> RE)	FY2021 (1 <sup>st</sup> RE)	FY2022 (2 <sup>nd</sup> AE)
Real GDP (₹ in trillion)	140.0	145.2	135.6	147.7
Real GVA (₹ in trillion)	127.4	132.2	125.9	136.2
Real GDP growth	6.5%	3.7%	(6.6%)	8.9%
Real GVA growth	5.9%	3.7%	(4.8%)	8.3%

**Source:** Government of India, Central Statistics Office (CSO). AE denotes Advance estimate and RE denotes revised estimate.

Chart A depicts India's real GDP growth over the same period by quarters for the last four financial years.



The second advance estimates of national income for FY2022 released by the Central Statistics Office on 28 February 2022 expect GDP growth in FY2022 to be 8.9%. Sectoral growth estimates show that all three sectors – agriculture, manufacturing, and services – grew well. In absolute terms, the economic output of all the three sectors crossed the pre-pandemic levels of FY2020. RBI in its monetary policy report dated 8 April 2022 projected a real GDP growth of 7.2% for the financial year 2022-23 (FY2023).

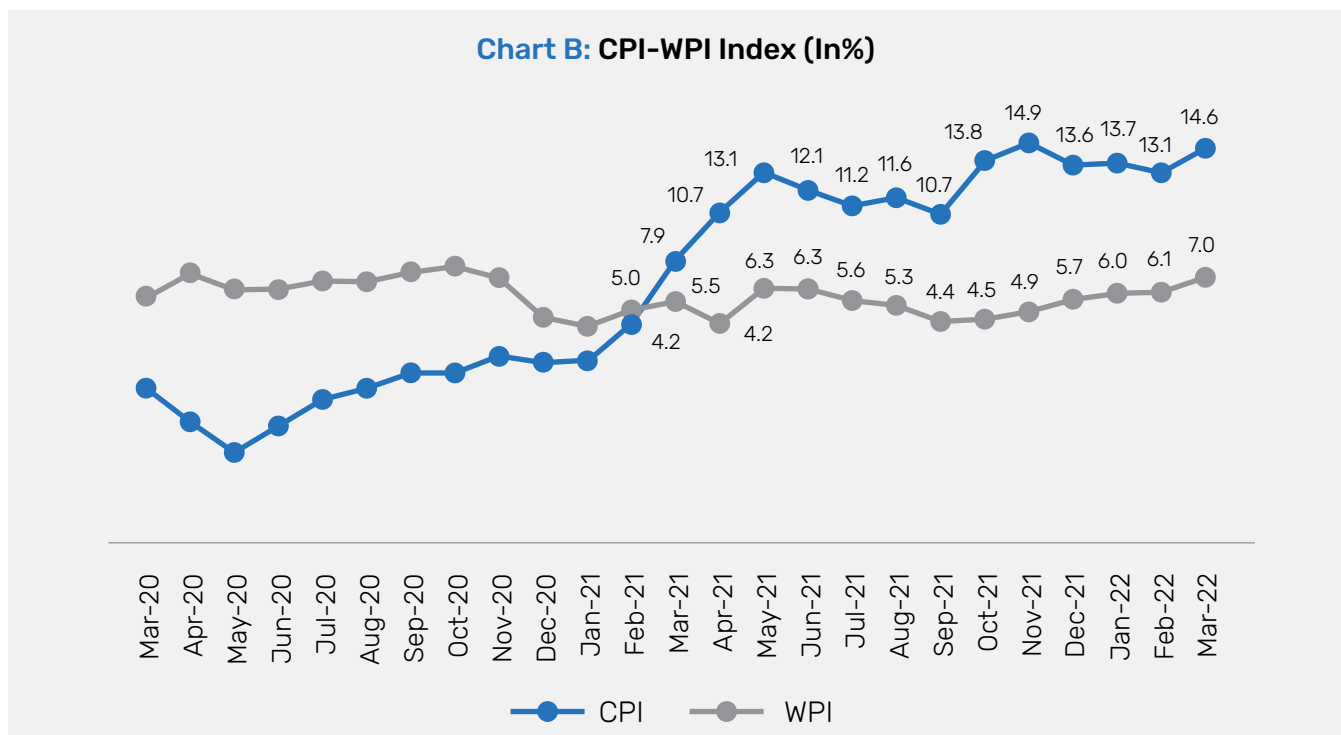
The service sector which accounts for more than half the Indian economy was most impacted on account of the COVID-19 restrictions especially for activities that needed human contact. Although the overall service sector now contributes to 54% of the GDP as against the pre-pandemic levels of 55%, there is a wide dispersion of performance among the different sub-sectors. The financial, real estate and the public administration segments are now well above the pre-pandemic levels. However, contact sensitive segments like travel, trade and hotels are yet to reach the pre-pandemic levels of value added.

Although private consumption expenditure barely crossed the pre-pandemic levels, growth of government consumption expenditure and gross fixed capital formation made up for the muted private consumption expenditure. GST collection is a good indicator to assess country’s growth and economic recovery, it increased by over 30% in FY2022 to ₹ 14.83 lakh crore, indicating revival and growth momentum.

The Government of India announced a growth oriented and expansionary budget for the FY2023 with a strong push on investments to lift economic growth. The compounded annual growth rate for capital expenditure of FY2023 over FY2020 is projected at 28% while revenue expenditure is contained at 12%. The budget’s expectation is that such capex-led growth would take India on a growth path even at the cost of a fiscal deficit of 6.4% in FY2023, coming on top of 6.8% in FY2022.

Unfortunately, the conflict in Ukraine has led to chaos in global commodity markets. Crude prices are oscillating between USD100 to USD120 posing a threat to India’s economic recovery. How increased commodity prices will unfold is yet to be seen. What is sure, however, is that there will be a considerable impact on inflation which was already a cause of concern.

Inflation has emerged as a global challenge owing to the surge in energy prices, non-food commodities, input prices disruptions of global supply chains and rising freight costs. In India, retail inflation measured by the Consumer Price Index (CPI) edged up to 6.95% in March 2022 from 5.66% in December 2021. The food group registered a significant decline in prices primarily on account of vegetables, meat and fish, edible oils, and fruits. Fuel inflation eased in December 2021 but remained in double digit and remains a serious cause of worry. Chart B depicts India’s Inflation rate and wholesale price index (WPI).



Non-food credit growth of the scheduled commercial banks was 7.9% as of 25 February 2022 over 26 February 2021 as against 6.6% for the same period in the previous year. Credit growth to industry accelerated to 6.5% in February 2022 from 1% in February 2021. Credit growth within industry was the largest in the medium scale industry which recorded a 71.4% growth in the period followed by a 19.9% growth to micro and small industries. In contrast, large-scale industries saw a meagre 0.5% growth. Credit growth in personal loan segment was 7.9%. Fortnightly data released by the RBI on 21 April 2022 reflected credit growth of the scheduled commercial banks crossed 10% as of 8 April 2022.

The RBI introduced its Resolution Framework-2.0 in May 2021 during the outbreak of the deadly second wave which gave impacted and vulnerable borrowers breathing space to meet their repayment obligations. Simultaneously, the RBI maintained adequate liquidity to support its accommodative stance throughout the year. It resorted to rebalancing liquidity on a dynamic basis without compromising systemic liquidity. Moreover, the RBI kept its key policy rates including repo rate, reverse repo rate and bank rate unchanged at 4%, 3.35% and 4.25% respectively throughout FY2022.

On balance, we believe that the Indian economy is well positioned to counter the challenges posed by any new waves of the pandemic. The inflation challenge needs to be tackled carefully without resorting to sharp interest rate hikes, as it may dampen the pace of economic recovery. The other serious risk relates to major disruptions in the global supply chains mostly emanating from China; and, more recently, with the Ukraine conflict, from Russia. It is difficult to predict how these will play out. So, we need to be prepared for continuous volatility and external disruptions.

## Industry Overview

NBFCs have become important constituents of the financial sector and have been recording higher credit growth than scheduled commercial banks (SCBs) over the past few years. NBFCs are leveraging their superior understanding of regional dynamics and customised products and services to expedite financial inclusion in India. Lower transaction costs, quick decision making, customer orientation and prompt service standards have typically differentiated NBFCs from banks. Considering the reach and expanse of NBFCs, they are well-suited to bridge the financing gap in a large country like India. Systemically Important NBFCs have demonstrated agility, innovation, and frugality to provide formal financial services to millions of Indians.

The systemic importance of the NBFC sector can be gauged by the following facts:

- The NBFC sector (including HFCs) has assets worth more than ₹ 54 lakh crore as of 31 March 2021, equivalent to about 25% of the balance sheet size of the banking sector – up from 12% of the balance sheet size of banks in 2010.
- Over the last five years, NBFC's assets have grown at cumulative average growth rate of 17.9%.
- NBFCs were the largest net borrowers of funds from the financial system, with gross payables of ₹ 12.06 lakh crore and gross receivables of ₹ 1.65 lakh crore as of 30 September 2021. HFCs were the second largest net borrowers of funds from the financial system, with gross payables of ₹ 7.38 lakh crore and gross receivables of ₹ 0.61 lakh crore as of 30 September 2021.
- Credit delivery growth of NBFCs in terms of the share of GDP has grown from 8.6% in FY2013 to 13.7% in FY2021.

This is an enviable track record despite the business models of the NBFCs being severely tested by four large external events in the last few years, namely, (i) demonetisation, (ii) GST implementation, (iii) failure of few large NBFCs, and (iv) the pandemic. The fact that many NBFCs have managed to overcome these stresses without significant impact on financial position is a testimony to their resilience and agility.

Given the systemic risks that the sector poses, the RBI issued 'Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs' on 22 October 2021 to make the financial sector sound and resilient while allowing a majority of NBFCs to continue under the regulation-light structure. The objective behind this scale-based approach is the principle of proportionality for regulating the non-banking financial companies. The purpose is to calibrate the degree of regulatory prescriptions based on the systemic importance of NBFCs and the contagion risk they pose to other entities in the financial system.

The regulatory vigil over the NBFCs continues with focus on four key cornerstones of (i) responsible financial innovation, (ii) accountable conduct, (iii) responsible governance, and (iv) centrality of the customer.

We believe that NBFCs with superior capital adequacy, better margins, frugal cost management, prudent risk management and those incorporating above four key cornerstones in their business models will continue to deliver sustainable growth in the foreseeable future.

## The Company

BFL has its presence in 3,504 locations across the country, including 2,136 locations in rural/smaller towns and villages. Geographical expansion, large customer franchise and adoption of digital technology continues to be critical pillars of the Company's growth. It focuses on six broad categories: (i) Consumer Lending, (ii) SME Lending, (iii) Commercial Lending, (iv) Rural Lending, (v) Deposits; and (vi) Partnerships and Services.

The pandemic induced disruptions continued in FY2022 as well. The first half of FY2022 witnessed a significant impact of the lethal second wave (Delta) of the pandemic – impacting performance of both business and portfolio quality. 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 new business acquisition and underwriting across all its businesses.

As a result, BFL recorded a 29% growth in AUM (core AUM growth is 26%) and 59% growth in profit after tax on a consolidated basis in FY2022 as against a 4% growth in AUM and 16% degrowth in profit after tax in FY2021. Return on average assets (ROA) and return on average equity (ROE) for FY2022 was 4.2% and 17.4% respectively on a consolidated basis. This performance was despite the continued disruption in business and debt management services in the first half of the year, elevated level of credit costs and higher liquidity buffers.

The Company's business model continues to generate healthy pre-impairment operating profits enabling it to withstand higher credit costs in times of stress. 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.

On the liability side, BFL continued to maintain conservative liquidity buffers. The consolidated liquidity buffer was ₹ 10,110 crore as on 31 March 2022. While maintaining higher liquidity buffers, the Company took several initiatives to bring down its cost of borrowings resulting in a decrease of 103 bps over FY2021. As on 31 March 2022, BFL's consolidated borrowings stood at ₹ 165,232 crore.

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 amongst 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.

### Consolidated Performance Highlights, FY2022

- Number of new loans booked was 24.7 million.
- Customer franchise grew by 19% to 57.6 million.
- Assets under management (AUM) increased by 29% to ₹ 197,452 crore.
- Core AUM (net of short-term IPO financing receivable) increased 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 expenses (Opex) grew by 43% to ₹ 7,585 crore.
- Opex to NII stood at 34.6%.
- Pre-impairment operating profit increased by 20% to ₹ 14,307 crore.
- Impairment on financial instruments decreased by 20% to ₹ 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%, Tier I adequacy was 24.75%, which is well above the RBI norms.

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 business momentum while maintaining strong vigil on portfolio quality and adapting to changing customer preferences of post pandemic world.

With the strong financial position, well provisioned balance sheet, omnichannel business strategy and strong entry momentum into FY2023, the Company is optimistic about its growth prospects in FY2023.

## Omnichannel Strategy

BFL is one of the largest and most diversified NBFCs in India. It has the experience of acquiring and serving 57.6 million customers since it started its transformational journey in FY2008 from a mono-line captive lender to a diversified financial service business that it has become today. During this period, the Company expanded its presence to 3,504 locations with a distribution network of over 133,200 points of sale. It has also rapidly expanded its presence in ecommerce space by onboarding 140 partners and creation of marketplaces for financing of electronics and ancillary products, insurance distribution and investments distribution.

Over the next few years, BFL intends to become a dominant payments and financial services company in India. Strategy is to be an 'Omnipresent' financial services company dominant across all mediums of consumer presence covering physical, app, web, social and virtual. BFL will continue its approach of 'acquire and cross-sell' across payments, assets, deposits, insurance, investments, and broking products to its Consumer, SME, Commercial and Rural consumers. And it remains committed to build businesses with a long-term view anchored on prudence and risk management to deliver 'through the cycle' 18-20% shareholder returns.

The Omnichannel strategy pre-dated COVID-19. It was articulated in 2019 as a part of its long-range plan to create a new phase of sustainable growth strategy for BFL. COVID-19 accelerated this transformation and galvanised the Company to make 'Omnichannel strategy' the new way of doing business. It will enable customers to move between online to offline and vice-versa in a frictionless manner. The Omnichannel model starts with customer and ends with products/processes as against the traditional approach which starts from products/processes and ends with customers. It's been a huge structural shift for the Company, and

we are reinventing the way we do everything, everyday. Once implemented, it will evolve BFL into a customer centric digital enterprise.

All business transformations need time, teams, and technology. BFL is committed to invest time and effort in making significant changes to its operating processes. It has made lots of progress in the last 18 months in optimising its processes to make them digital ready. In the last 18 months, BFL has onboarded 911 employees with relevant skills to accelerate its Omnichannel strategy. BFL has also made significant structural changes to its technology stack to evolve itself into a customer centric digital enterprise.

In FY2022, the Company made significant progress in the following domains of Omnichannel strategy:

- **Geographic expansion** remains an important driver of growth and portfolio management. BFL expanded its geographic presence by adding 516 locations in FY2022 taking its presence to 3,504 locations. Its ambition is to be present in 5,000 locations over the next few years. The Company has well defined geographical expansion programme and it considers GDP contribution as an important parameter for selection of new locations. The Company monitors portfolio contribution of regions across the country against their GDP contribution.
- BFL has completely rebuilt its customer facing **mobile app** with (a) refreshed interface layer; (b) inclusion of payments stack - wallets, UPI, bill pay service, single payment check out gateway; (c) enhanced and new customer engagement features - in-app programs, rewards, offers, deals and location based services; (d) enhanced service features and information with robust search mechanism for loans and deposits; (e) frictionless purchase journeys for loans, investments and insurance; (f) marketplaces for financing and distribution across electronics, insurance, investment and health; (g) capabilities of digitisation of EMI card and Co-brand credit card with improved service features. All these encompassing over 55 core features were delivered in the new customer interface in FY2022.

During FY2022, over 14 million customers have installed the new mobile app. The Company is currently observing eight million distinct monthly active users and almost one million daily distinct active users. In FY2023, BFL plans to build additional 50 features which would cover new and enhanced purchase journeys of loans, investments and insurance, personalised marketing, promotions, and data led features, integrated rewards in the loan journeys, augmented reality, and virtual reality features and more.

- **Payments** is core to delivering Omnichannel strategy. It will drive higher engagement and retention of customers on BFL's new digital platforms. BFL plans to build a full-service payments business across all formats of issuance and acquiring. BFL has built a robust payments stack encompassing wallets, UPI, bill pay service and single payment check out gateway.

During FY2022, i) 6.4 million customers have created wallet account with the Company; ii) 2 million customers have created UPI handles; and iii) 2.3 million bill payment transactions were executed by the customers using BFL's bill pay service. Along with the payments journey for customers, the Company has also progressed on creating merchant solutions and capabilities to enable merchant onboarding, payments and business one view for merchants, and marketing campaign solutions and rewards for merchants.

In FY2023, BFL plans to deploy Electronic Data Capture ('EDC') terminals with on-us and off-us payment methods, Quick Response ('QR') solutions as well as its own payment gateway. This will enable BFL to offer omnichannel payment solutions to its customers thereby enabling higher business growth and larger market shares.

- **Web** remains an extremely important driver of customer traffic, business volumes and service to customers in the digital space. As part of its Omnichannel strategy, BFL is committed to provide platform agnostic experience across all digital mediums. In pursuit of this strategy in FY2022, BFL has invested in domain talent and technologies to build a large web platform. Further, the Company has also invested in expanding its presence in search ecosystem thereby laying a strong foundation for one billion web traffic over the medium term.

In FY2023, the Company plans to completely transform web experience by revamping the entire UI/UX of the web platform thereby offering a consistent experience across both app and web ('web' = 'app'). As a result, BFL customers will be able to initiate journey on one platform and complete the same on the other platform. All the three marketplaces of the Company viz. electronics, insurance, and investments, will be tightly integrated into the web platform. The web platform will also enable customers to manage all relationships and avail all related services.

- BFL has also built **Sales One App** and **Debt Management One App** to provide a single gateway to customers for online and offline transactions and a unified experience for sales and debt management teams. These platforms will significantly help improve the business productivity and controllership, customer engagement, integration of various business and functions and enabling frictionless purchase and servicing experience for customers.

**Sales One app** enables BFL sales teams with capabilities such as lead management, performance management dashboards, customer service, debt management, sales helpline, and incentives and training. In FY2023, the Company plans to further improvise the 'Sales One app' with additional features like merchant onboarding, calculators, interactive reports, and others.

**Debt Management One app** enables the Company's debt management teams with host of capabilities and features like mobile receipting, settlement workflow, call management and recording, debt management and customer service-related trainings, options for customer service, customer feedback score, code of conduct and others. In FY2023 the Company plans to enable debt management teams with features like agent onboarding, performance dashboards, agency allocation, meeting calendars, repossession module, debt management helpline and others. In addition to large operating benefits, this will significantly strengthen BFL's compliance and controllership.

- **Customer data platform** ('CDP'), a key to the omnichannel experience, was implemented in the second quarter of FY2022. CDP enables multi-channel orchestration, customer communication, call governance with an integrated multi-dialler, multi-lingual architecture. BFL has also migrated from a centralised Pune-based call centre infrastructure to eight regional call centres to deliver multi-lingual sales and service support to its customers.

In FY2023, the Company will accelerate execution of Omnichannel strategy. The Company has plans to open 400 to 450 locations to further deepen its presence across India. On the app platform, the Company will optimise the app and deliver new features and services to make it more customer centric. It will build a web platform and deliver a consistent experience across platforms to its customers.

## Business Update

In FY2022, BFL disbursed 24.7 million loans, representing a growth of 46% over FY2021. It is present in 3,504 locations across the country, including 2,136 locations in rural/smaller towns and villages. It operates through more than 133,200 distribution points across India. The Company acquired over 9 million new customers in FY2022 taking its existing customer franchise to 57.6 million as on 31 March 2022, a growth of 19% over 31 March 2021.

In FY2022, as part of its product strategy, the Company has further expanded its product offering for customers:

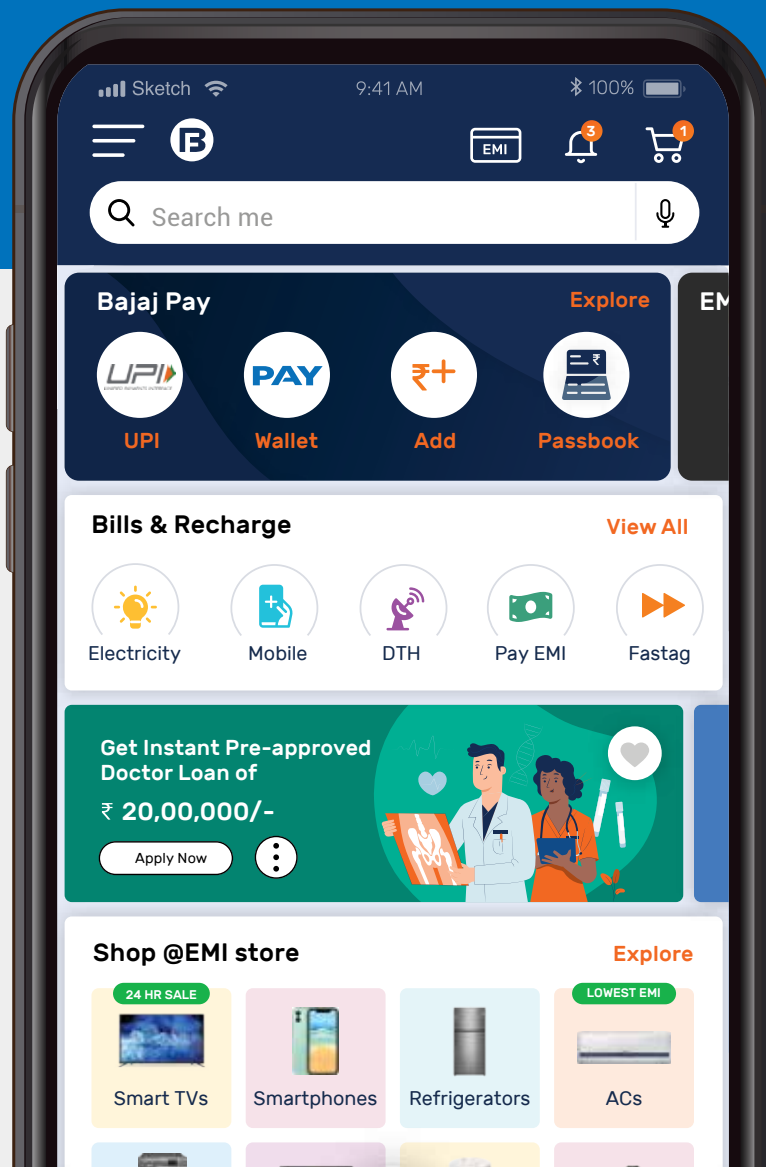
- BFL has announced the launch of two-wheeler financing across all manufacturers in addition to financing of Bajaj Auto two-wheelers. The Company plans to start this business in the second quarter of FY2023.
- On 19 January 2021, BFL received approval of the RBI for issuance of co-branded credit card in association with DBS Bank (India) Ltd. ('DBS Bank'). The Company launched co-branded credit card with DBS Bank on 5 April 2022.
- To grow its market share in the used car financing business, the Company has entered into a strategic tie-up with Cars24 for providing end-to-end digital financing experience for customers transacting on Cars24 platform.



# BAJAJ FINSERV APP

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Loans



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Insurance

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## Consumer Lending: consumer electronics, furniture, digital products, e-commerce purchases and daily spends financing

BFL continues to be the dominant lender for consumer electronics, furniture, and digital products in India. It financed 12.7 million consumer electronics and digital products purchases in FY2022.

This segment saw some shift in consumer preferences as a result of changed lifestyles amidst the pandemic.

There has been a sizeable shift towards premium range across product categories. Laptops and mobiles have grown by 47%, over last year, as a result of work from home and online classes for students. As in FY2021, the second wave of the pandemic impacted April–June demand for air conditioners and refrigerator as a result of which air conditioner and refrigerator volume was 16% lower compared to FY2020.

BFL's unique Existing Member Identification (EMI) card, with about 29.9 million cards in force, enables customers to avail instant finance after the first purchase across more than 122,000 points of sale. In FY2022, EMI cards enabled the Company to finance over 13.1 million purchases across all sales finance categories: consumer electronics, digital products, lifestyle products, lifecare, e-commerce and other retail spends.

Bajaj Finance remained the largest financier of Bajaj Auto motorcycles and three wheelers in FY2022. However, it continued to remain cautious of new acquisitions due to increased credit costs during the pandemic. During the year, it financed over 637,000 two wheelers and about 72,000 three wheelers. This constituted 37% of domestic sale of Bajaj two-wheelers and 44% of domestic sale of Bajaj three-wheelers. BFL has announced the launch of financing of two-wheelers of other brands as well. The Company plans to start this business in the second quarter of FY2023.

The Company's lifestyle finance is based on discretionary spends with large ticket size and witnessed higher demand in FY2022. It has financed over 461,000 accounts which represents growth of over 60% vs FY2021. BFL focuses on driving adoption of digital acquisition through its marketplace. It has onboarded 51 large OEMs on its marketplace and has listed more than 10,000 products for its large existing customer franchise.

The Company finances its existing EMI card customers for their purchases through e-commerce platforms. It financed over 2.5 million transactions in FY2022 – representing a growth of 48% versus the previous year. BFL increased its online franchise by onboarding around 140 online partners during the year taking the overall franchise to about 210 partners. 13 of these partners are already part of the new Bajaj Finserv App, giving our customers a seamless shopping experience.

The retail spends financing business offers easy instalment options to customers for small ticket purchases like fashion, eyewear, cycles, insurance, tyres, car accessories and servicing, and small appliances. This business continues to focus on building and managing distribution in select geographies and higher ticket spends categories which are more economically viable. It is now operational in 60 locations with a footprint of over 34,000 partner stores across India. BFL financed nearly 656,000 such purchases in FY2022.

## Personal Loans

Personal Loan Cross Sell (PLCS) business is a pre-approved loan origination programme for existing customers of BFL. It relies on risk analytics, campaign management and digital acquisition strategy. BFL has completely revamped its loan origination, underwriting and loan booking system for PLCS business. It has also invested in a campaign management tool on CDP (the customer data platform) for horizontal campaign governance and promotional campaign management. The PLCS business has now migrated to eight new regional call centres with multi-linguistic capability across India. Further, it launched a new three-click self-service 'get it now' disbursement process for customers on its new platforms. About 824,700 customers were sourced through the PLCS business in FY2022. AUM for the business grew by 24% over FY2021 to ₹ 21,374 crore.

Salaried personal loans (SPL) are offered to affluent salaried customers with average annual gross earnings of over ₹ 600,000. The SPL business AUM grew by 32% over FY2021 to ₹ 16,031 crore.

## SME Lending

SME lending offers unsecured and secured loans to small businesses. It consists of working capital loans and term facilities to SMEs, MSMEs and professionals. Secured loans to SME and MSME customers are offered against their residential property, commercial property or used four-wheeler. The SME segment witnessed disruptions on account of the pandemic induced slowdown. While demand for SME loans bounced back from the second quarter in FY2022, this second wave of pandemic has had an adverse impact on the loan losses.

### For Businesses

Unsecured SME Loans to businesses is present in over 1,500 locations in India. Its AUM in FY2022 grew by 25% to ₹ 14,203 crore.

### For Professionals

BFL offers secured and unsecured loans to doctors, chartered accountants, and other professionals under this category – consisting mainly of working capital loans and term facilities. The business is present in over 1,500 locations in India. Its unsecured AUM grew by 17% over FY2021 to ₹ 9,420 crore.

In FY2022, our medical equipment financing business gained traction through field distribution, OEM network and dealer network. Currently the business has 100+ empanelled dealers and 10 OEMs for sourcing. This business is ancillary to the professional loans business.

### Secured loans to SME and MSME customers

BFL offers secured loans to SME and MSME customers against their residential property, commercial property or used four-wheeler. AUM of secured loans against residential or commercial property grew by 53% over FY2021 to ₹ 1,804 crore. Used car finance AUM grew by 84% over FY2021 to ₹ 1,170 crore. BFL has expanded its used car finance presence from 14 to 28 locations in FY2022. It has entered into a tie-up with Cars24 for providing end-to-end digital financing experience for customers transacting on Cars24 platform.

## Rural Lending

BFL offers all its lending and deposits products which includes consumer B2B lending, personal loans, gold loan, retail deposits and others in small towns and villages through its rural lending business. In FY2022, BFL expanded its rural lending footprint by adding 446 locations. At the end of FY2022, it was present in over 2,136 locations across 21 states and union territories in India. During the year, BFL expanded its product offering by launching co-branded credit card and EMI cards for customers in rural markets. It opened 50 financial inclusion branches in unbanked rural centres in FY2022.

The rural lending business recorded an AUM growth of 32% over FY2021 and closed with an AUM of ₹ 19,430 crore as on 31 March 2022.

## Commercial Lending

Commercial lending consists of lending to auto component manufacturers and the light engineering industry, loans to financial institutions, loans to specialty chemical and pharma industry and other mid-market companies.

Barring April–June quarter, when manufacturing sector and supply chain faced disruptions due to lockdowns, the impact of the pandemic was minimal during FY2022. BFL continues to have sharp focus on acquiring quality corporate clients, deepening relationships, and ensuring value add by offering products in the form of working and growth capital loans. Commercial lending recorded an AUM growth of 39% over FY2021 to ₹ 11,498 crore.

## Loan Against Securities

Loan against securities business offers medium-term and short-term financing against shares, bonds, mutual funds, insurance policies and deposits to customer across retail, high net-worth individuals (HNIs) and promoter categories. It is operational in 15 locations through physical branches and also offers financing solution through a digital medium.

BFL has completed its product suite for its retail and HNI customers through its 100% subsidiary, BFinsec, which offers various investment services like demat services, broking, margin trade financing and financing of offer for sale.

The business grew strongly in FY2022 and closed the financial year with AUM of ₹ 10,536 crore, recording a growth of 79%. This was excluding the short-term IPO financing AUM, which stood at ₹ 5,365 crore as of 31 March 2022.

## Deposits

BFL accepts deposits from retail and corporate clients. The deposits book as on 31 March 2022 stood at ₹ 30,800 crore, representing a growth of 19% y-o-y. BFL's deposit book now contributes to 25% of its standalone borrowings and 19% of its consolidated borrowings as on 31 March 2022, compared to 26% and 20% respectively, as on 31 March 2021.

BFL continues to grow retail deposits in calibrated manner. However, given higher amount of liquidity buffer, the Company temporarily reduced its focus on large ticket corporate deposits. To provide retail customers an option to place deposits in a seamless manner, BFL launched digital deposits on its 3-in-1 App in February 2022.

Retail deposits now contribute to 69% of total deposits, versus 73% as of 31 March 2021.

## Partnerships and Services

In partnership with various financial service providers, BFL offers variety of products to its customers which includes life insurance, health insurance, extended warranty, comprehensive asset care, co-branded credit card and financial fitness reports.

BFL is registered with Insurance Regulatory and Development Authority of India (IRDAI) as a corporate agent for distribution of life, health and general insurance products across nine insurance partners. Working with various insurance companies, it has developed a small ticket insurance product (called 'pocket insurance') for very specific customer needs. It distributed over 623,100 pocket insurance policies in FY2022 versus 272,900 in FY2021, registering a growth of 128%.

It also distributes comprehensive asset care product to its B2B customers providing features such as extended warranty, theft cover, breakage cover, replacement cover etc. of their purchased products.

In partnership with the RBL Bank, BFL's co-branded credit card business continued to grow robustly in FY2022. These credit cards are now offered across 400+ locations in India. The number of cards-in-force stood at over 2.80 million as on 31 March 2022. The credit card alliance agreement with RBL Bank has been further renewed for a period of 60 months.

On 19 January 2021, BFL received approval of the RBI for issuance of co-branded credit card in association with DBS Bank (India) Ltd. ('DBS Bank'). The Company launched co-branded credit card with DBS Bank on 5 April 2022.

These partnerships and products have enabled the Company to provide value added services to its customers and grow its fee-based income.

## Assets under Management (AUM): A Snapshot

BFL closed FY2022 with AUM of ₹ 197,452 as compared to ₹ 152,947 crore as at the end of FY2021, a growth of 29%. Core AUM as on 31 March 2022 net of ₹ 5,365 crore of short-term IPO financing receivables was ₹ 192,087 crore, representing a growth of 26%. BFL delivered this growth despite the disruption caused by the second wave of pandemic in first quarter of the year. Chart C depicts BFL's consolidated AUM over the last five years.

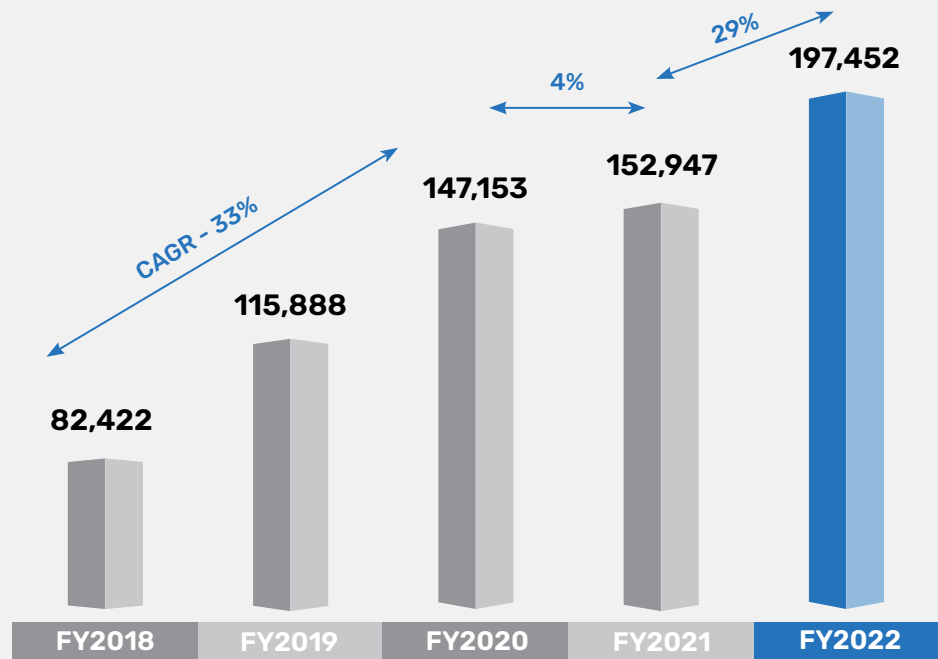
**Chart C: BFL's Consolidated Asset under Management (₹ in crore)**

Table 2 breaks down the AUM across the major business verticals.

**Table 2: Assets under Management**

(₹ in crore)

Particulars	Standalone			Consolidated		
	FY2022	FY2021	Change	FY2022	FY2021	Change
Consumer B2B - auto finance business	10,194	12,111	(16%)	10,194	12,111	(16%)
Consumer B2B - sales finance	14,977	11,525	30%	14,977	11,525	30%
Consumer B2C businesses	37,302	29,310	27%	38,772	30,450	27%
SME Lending	24,896	20,057	24%	24,979	20,217	24%
Rural B2B - sales finance businesses	4,129	2,883	43%	4,129	2,883	43%
Rural B2C businesses	15,301	11,822	29%	15,301	11,822	29%
Commercial lending business	11,498	8,293	39%	11,498	8,293	39%
Loan against securities	9,816	5,705	72%	10,536	5,889	79%
IPO financing	5,365	165		5,365	165	
Mortgages	13,265	13,546	(2%)	61,701	49,591	24%
<b>Total</b>	<b>146,743</b>	<b>115,418</b>	<b>27%</b>	<b>197,452</b>	<b>152,947</b>	<b>29%</b>

## Financial Performance

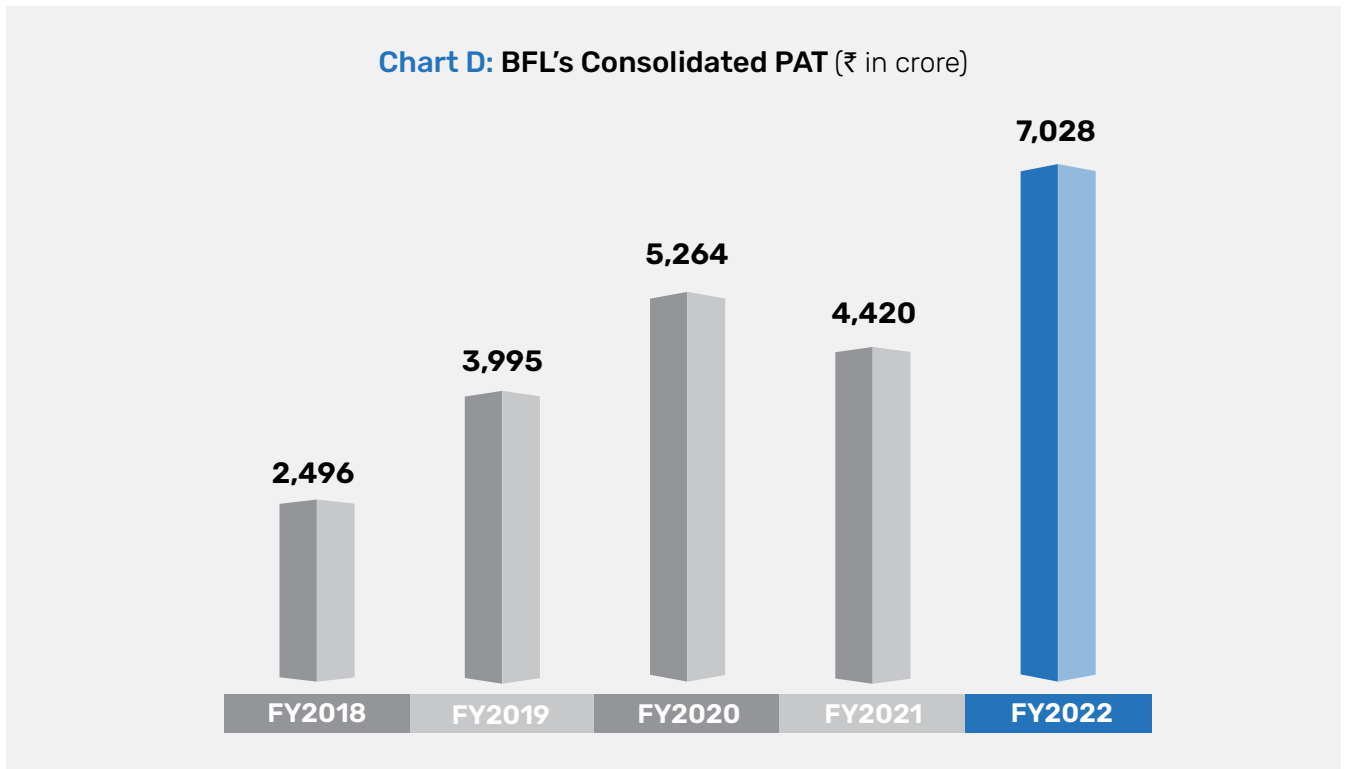
Table 3 gives BFL's standalone and consolidated financial performance for FY2022 vis-à-vis FY2021.

**Table 3: BFL's Standalone and Consolidated Financials**

(₹ in crore)

Particulars	Standalone			Consolidated		
	FY2022	FY2021	Change	FY2022	FY2021	Change
Total income	27,871	23,546	18%	31,640	26,683	19%
Interest and finance charges	7,573	7,446	2%	9,748	9,414	4%
<b>Net interest income (NII)</b>	<b>20,298</b>	<b>16,100</b>	<b>26%</b>	<b>21,892</b>	<b>17,269</b>	<b>27%</b>
Employee benefit expenses	3,222	2,242	44%	3,590	2,499	44%
Depreciation and amortisation	355	302	18%	385	325	18%
Other expenses	3,513	2,472	42%	3,610	2,484	45%
<b>Pre-impairment operating profit</b>	<b>13,208</b>	<b>11,084</b>	<b>19%</b>	<b>14,307</b>	<b>11,961</b>	<b>20%</b>
Impairment on financial instruments	4,622	5,721	(19%)	4,803	5,969	(20%)
<b>Profit before tax (PBT)</b>	<b>8,586</b>	<b>5,363</b>	<b>60%</b>	<b>9,504</b>	<b>5,992</b>	<b>59%</b>
<b>Profit after tax (PAT)</b>	<b>6,350</b>	<b>3,956</b>	<b>61%</b>	<b>7,028</b>	<b>4,420</b>	<b>59%</b>
Other comprehensive income/(expenses)	35	(58)	(160%)	34	(57)	(160%)
<b>Total comprehensive income</b>	<b>6,385</b>	<b>3,898</b>	<b>64%</b>	<b>7,063</b>	<b>4,363</b>	<b>62%</b>
Earnings per share (EPS) basic, in ₹	105.39	65.85		116.64	73.58	
Earnings per share (EPS) diluted, in ₹	104.63	65.33		115.79	73.00	
Book value per share, in ₹	699.34	597.85		726.71	614.11	

Chart D depicts BFL's consolidated PAT.



## Key Ratios

Table 4 gives a summary of key ratios for FY2022 vis-a-vis FY2021.

**Table 4: BFL's Key Ratios on a Consolidated Basis**

Ratios	FY2022	FY2021
Net interest income to average loans receivable	12.95%	11.99%
Total operating expenses to net interest income	34.65%	30.74%
Return on average loans receivable (ROA)	4.16%	3.07%
Return on average equity (ROE)	17.43%	12.77%
Capital to risk-weighted assets ratio (CRAR)*	27.22%	28.31%
Tier I*	24.75%	25.11%
Tier II*	2.47%	3.20%
Gross NPA	1.60%	1.79%
Net NPA	0.68%	0.75%
Provisioning coverage ratio (PCR)	58%	58%
EPS - Basic (₹)	116.64	73.58
Diluted (₹)	115.79	73.00

\* These ratios are on standalone basis.

## Risk Management, Debt Management and Portfolio Quality

### Risk Management

As an NBFC, BFL is exposed to credit, liquidity, operational, market including interest rate risk. It continues to invest in talent, processes and emerging technologies to build advanced risk management capabilities. Over years, sustained efforts to strengthen its risk framework have resulted in stable risk metrics for BFL.

BFL promotes a strong risk culture that is embedded across the organisation. At the highest level, the Board of Directors has established a Risk Management Committee (RMC), which assists the Board in maintaining oversight and review of the risk management principles and policies, strategies, risk appetite, processes and controls. This is enabled by a robust governance system and review mechanisms which include quarterly risk management review. The RMC met six times in FY2022.

The COVID-19 pandemic tested the Company's risk management and debt management services framework through its severe impact on life and livelihood. To overcome this, BFL focused on capital management, maintaining abundant liquidity, reducing operating expenses, expansion of collections and servicing capability, strengthening of underwriting norms combined with a very sharp view on risk metrics.

### Credit risk

BFL has a strong governance framework and it ensures that the Board of Directors and its committees approve risk strategies and delegate appropriate credit authorities. Its robust underwriting practices and continuous risk monitoring ensure that portfolios stay within acceptable risk levels.

The Company has deeply invested in its risk organisation structure that includes dedicated credit risk units for each business vertical; business specific units such as underwriting, risk containment and fraud control; and horizontal risk analytics, business intelligence and operational risk management units. In addition, BFL continues to invest in debt management services capacity.

Through prevention and deterrence actions, the risk containment and fraud control unit is responsible for preventing frauds perpetrated by customers, sourcing channels and internal employees either alone or in connivance with others. It ensures that most fraud checks are performed well before any disbursement of

loan through an inbuilt advanced fraud controls analytics in its loan origination system. The fraud rules are periodically updated based on emerging learnings.

BFL has enabled all its employees and agencies to flag any suspicious activity or transaction on the core lending system which then go through extensive checks by the fraud control unit. This is further supported by a dedicated BPO and a 351-member field structure spread across 240 locations for faster response to frauds.

The country faced the second wave of COVID-19 in the April-June 2022 quarter. It led to higher levels of infections and fatality causing severe toll on life. Fortunately, the curtailment actions by the government were more localised and well calibrated at city and specific zone levels enabling continuity and minimal disruption to economic activity throughout the country. Though there was a marginal uptick in instalment default rate and compression in debt management efficiencies for a period of three months, the revival was quick and strong. As a result, unlike the first wave, the impact on the portfolio and loan losses was not as severe. Adequate investment in debt management services in FY2021 also helped in curtailing the impact on the portfolio amidst the second wave.

In a calibrated manner throughout the year, the Company continued to relax the underwriting norms it had tightened during the first wave. It has brought back its underwriting norms to pre-covid standards from the second half of the year. The gradual relaxation of underwriting and sharp vigilance on portfolio quality have ensured that risk performance of portfolio remains in line or better than the pre-covid metrics.

Further, this agile, calibrated and closely monitored approach to credit risk and timely investment in deepening of debt management services have not only enabled the Company to weather the pandemic well but also provide a strong foundation to deliver balance sheet growth in line with its medium-term guidance of 25%-27%.

The third wave which started in mid-December 2021 has had no impact on risk metrics both for new business and the overall portfolio.

BFL carried out multiple risk simulations to assess the potential impact of the second and third wave of the pandemic on its loan losses and provisions estimate and continued to absorb additional credit costs based on these simulations.

BFL saw elevated level of loan losses of ₹ 4,803 crore in FY2022 owing to the disruption caused by the second wave. While the gross and net NPAs have reverted back to pre-covid levels, BFL has chosen to carry a higher management overlay loan loss provision of ₹ 1,060 crore as on 31 March 2022 compared to ₹ 840 crore as on 31 March 2021 to account for any tail risk which may emerge from the pandemic.

Despite such accelerated provisioning, BFL delivered a consolidated pre-tax profit of ₹ 9,504 crore, registering a growth of 59%. In doing so, the Company once again demonstrated the resilience of its business model which generates strong pre-impairment profitability to absorb higher losses emanating from a crisis.

While keeping a close watch on risk emanating from COVID-19, the Company is tracking emerging macro risks which may emerge from Russia-Ukraine conflict, worldwide monetary policy stance of central banks, continued supply chain disruptions and commodity prices. Their impact on inflation over the mid-term and slowdown on GDP growth/recovery are areas that BFL continues to monitor and respond with adequate credit actions.

BFL's balance sheet composition continues to diversify with a higher composition of low risk businesses like mortgages and other secured businesses and a lower concentration in the auto finance business which bore the brunt of the pandemic.

The business transformation which focuses on building an 'omnichannel' model to deliver significant business velocity, reduction in operating costs and significant improvement in customer experience, will also enable



positive credit selection and a further improvement in growth in its 'good' portfolio. BFL has evolved its risk practices to manage different risks that a digital platform is exposed to.

BFL takes guarantee cover for its portfolios across B2C, MSME and three-wheeler financing business under Credit Guarantee Fund Scheme for NBFCs (CGS-II) from Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) governed by the SIDBI. As on 31 March 2022, the Company has covered ₹ 5,266 crore of its loan assets under this scheme. This has helped BFL to offset ₹ 148 crore worth of credit losses till FY2022 with further claims maturing over FY2023 and FY2024.

To sum up, the Company's balanced approach to portfolio management coupled with rigorous portfolio review has enabled it to identify early warning signals and take corrective actions. With use of sophisticated analytics, BFL has maintained a healthy new business portfolio quality and taken risk mitigating policy actions with agility and precision. On the back of improved stage-2 assets, gross NPA at 1.60% and net NPA at 0.68%, representing pre-covid metrics and strong macro and management overlay provision of ₹ 1,060 crore, BFL has entered FY2023 with healthy risk metrics.

### **Liquidity risk**

BFL manages its liquidity risk in accordance with its Board approved Liquidity Risk Management Framework and ALM Policy which incorporates the stipulations laid down by the RBI. The policy framework and the operational parameters are regularly reviewed by the Asset and Liability Management Committee (ALCO) setup in line with guidelines issued by the RBI, which ensures that there are no material imbalances or excessive concentrations on either side of the balance sheet. The Company follows a prudent approach for managing liquidity and ensures availability of adequate liquidity buffers to overcome mismatches in case of stressed market environment.

BFL regularly monitors the gap between maturing assets and liabilities in the near term and across all time buckets. The Company's robust liquidity management framework ensured that it had enough liquidity throughout FY2022 to meet its debt service obligations and balance sheet growth.

Further, BFL exceeds the regulatory requirement of liquidity coverage ratio (LCR) introduced by the RBI in FY2020. Currently, the LCR requirement is at 60% for the Company which will increase to 70% from 1 December 2022. In comparison to these norms, BFL's LCR as on 31 March 2022 was 134%.

BFL's liquidity management is elaborated in detail in the section on 'Credit Rating and Asset Liability Management (ALM)'.

### **Operational risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, systems, human factors or from external events. This is further elaborated in the section 'Operational Risk Management'.

### **Market risk**

To effectively manage market risk on its investment portfolio, BFL follows a prudent investment policy which guide its investment decisions. The Company has invested its surplus funds mainly in government securities; liquid and arbitrage funds; and deposits with banks and highly rated financial institutions. The Company calibrates the duration of investment portfolio to balance the twin objectives of maintaining liquidity for business and minimum adverse fair value change on its investment portfolio.

### **Interest rate risk**

BFL is exposed to interest rate risk on its investment portfolio and interest rate sensitivity on fixed and floating rate assets and liabilities with differing maturity profiles. The Company raises funds from diversified sources like deposits, money market borrowings, term loans and short-term borrowings from banks and financial institutions, foreign currency borrowings, among others. In view of the financial nature of assets and liabilities, changes in market interest rates may adversely affect its financial condition. Fluctuations in interest rates can occur due to both internal and external factors. Internal factors include composition of assets

and liabilities, maturities profile, pricing of borrowings, and fixed and floating nature of assets and liabilities. External factors include macro-economic developments, competitive pressures, regulatory developments, and global factors.

BFL monitors fair value change impact on its investment book using Value at Risk (VaR) and these parameters are defined in its Board approved investment policy. Interest rate sensitivity on fixed and floating rate assets and liabilities with differing maturity profiles is measured by using the duration gap analysis to measure the impact of such interest rate movements on its balance sheet. This is computed monthly and sensitivity of the market value of equity assuming varying changes in interest rates are presented and monitored by ALCO.

The Company's risk management framework is further detailed in note no. 48 of standalone financial statement and consolidated financial statement

## Debt Management

Apart from its risk management practices, BFL actively focuses on a debt management strategy to ensure that its delinquent debt portfolio is kept at minimal levels. It accords debt management an important place in its portfolio management strategy; and has a dedicated structure where the focus is to follow a strict protocol for missed payments. The Company considers collection as a service to customer to enable fair and ethical recovery of delinquent accounts and past-due payments.

BFL continues to invest in its debt management service structure, service organisation, processes, training of employees and agencies, strict adherence of compliance requirements and controllership by leveraging technology to follow a non-intrusive collection mechanism. It follows a strong governance model for its debt management services practices and ensures strict adherence to the regulatory and internal policies, code of conduct and fair practice code. The Company offers a choice to customers to make overdue payment through digital channels, branch walk-in, at retailer points as well as door-step debt management services.

The debt management journey begins well before the customer's instalment falls due. As a matter of good customer service, BFL sends advance intimation to all its customers five to six days before the instalment falls due, to enable customers to maintain adequate funds in their bank account. This practice ensures that the credit history of a good customer is not impacted by any unintentional default.

BFL follows a graded communication approach with delinquent customers across their repayment lifecycle. These clearly indicate: (i) the importance of timely payment, (ii) avoidance of penal charges, (iii) available payment channels and (iv) payment confirmation. These communications are also made in vernacular language via multiple channels like SMS, email, tele-calling and in-person visits.

The Company has a dedicated structure aligned to business verticals for servicing customers: (i) with current month outstanding; (ii) in early delinquency; and (iii) in NPA and write-off stage. It uses combination of employees, call centres, digital channels, field agencies and legal channels for debt management.

In an endeavour to follow a non-intrusive debt management practice, BFL collects an electronic clearing mandate from its customers. In case of dishonour of bank instrument, BFL provides customers with over 22 different digital payment options such as NEFT, RTGS, Bharat Bill Payment Service (BBPS), Unified Payment Interface (UPI), CC Avenue, Wallets, Google pay, payment banks etc. These digital channels, along with branch walk-ins, account for approximately 51% of collections volume.

Over years, BFL has taken following measure to strengthen its debt management process:

- It has set up a centralised call monitoring infrastructure for its outsourced debt management services agency network to improve controllership. All agencies are supposed to make collection calls only through this infrastructure. All calls are now being recorded and monitored periodically to ensure compliance of debt management code of conduct.

- It has opened dedicated debt management service desks across the top 25 branches to address debt related queries of walk-in customers. The Company is committed to expand coverage of this model across more cities in future.
- It has set up a centralised helpdesk for assisting and processing debt management services related requests.
- It has formed a dedicated in-house team and a centralised calling unit to enable speedier resolution of debt management related complaints of aggrieved customers.
- It has implemented a Debt Recovery Agent (DRA) certification process for its agents.
- It has started a DMSCA (debt management services change agent) training programme for its agents using four modules.
- It has expanded the scope of interaction experience score (NPS) to seek the customers rating on the debt management services agent interaction.
- It has significantly strengthened its compliance framework to ensure strict adherence by the debt management services agencies of its code of conduct policy and fair practice code. This framework lays down a penal staircase for non-compliance. BFL investigates every customer complaint pertaining to debt management services and takes appropriate corrective and penal action.
- It developed 20 situational videos in eight vernacular languages which form part of the training module on its debt management services mobility app. These provide clear understanding to agents on the do's and don'ts while interacting with a customer.

## Portfolio Quality

BFL has experience of lending and servicing to 57.6 million customers. Most businesses are focused on acquiring mass affluent customers – who represent bigger wallets, larger cross-sell opportunities, and acceptable risk. The Company has not only diversified risk across millions of customers and product categories but has also diversified its risk and portfolio in 3,504 urban and rural locations in India.

BFL has continued to pursue a diversification and granularity strategy, which is represented in the product, customer, and geographical mix. Product diversity has further strengthened over the past years with build-up of used car financing, medical equipment finance etc. and the portfolio continues to shift the mix towards secured lending: for instance, mortgages now form 31% of the overall portfolio. Simultaneously, high risk products like auto finance now contribute less to the overall portfolio now at 5%. The Company also continues to deepen its geographical presence and has added 516 locations to take our total presence to 3,504 locations. BFL's rural businesses now contribute 10% of the overall portfolio and are growing at a faster pace than metros and larger geographies. BFL continues to re-pivot its mix towards lower risk assets like mortgages. It also continues its strategy of 'acquire and cross-sell' to manage cost and portfolio risk, based on its experience of an existing customer demonstrating significantly lower credit risk than a new customer and ensures acceptable risk across portfolios over the cycle.

Different segments got impacted by COVID-19. Salaried individuals impacted by loss of income or even job losses. Self-employed and SME segments faced the brunt of reduced economic activity which impacted cash flows. The Company's diverse portfolio across products, customer class and geographic distribution was severely tested by the disruptions caused by the pandemic. These developments, in turn, tested risk management frameworks across the financial sector; and BFL was no exception. To provide relief on debt servicing obligations, the RBI permitted financial institutions to provide moratorium to its borrowers during March to August 2020, followed by One Time Restructuring 1 and 2 and guaranteed lending support through Emergency Credit Line Guarantee Scheme (ECLGS).

In a calibrated manner throughout the year, the Company continued to relax the underwriting norms it had tightened during the first wave. It has brought back underwriting norms to pre-covid standards from the second half of the year. This calibrated and gradual relaxation of underwriting norms and sharp vigilance on portfolio quality has ensured that risk performance of portfolio remains in line or better than pre-covid risk metrics.

BFL ended the year with improved stage-2 assets of 1.97%, gross NPA of 1.60% and net NPA of 0.68% on consolidated basis, representing pre-covid metrics. The Company's macro and management overlay provision was ₹ 1,060 crore as on 31 March 2022 compared to ₹ 840 crore as on 31 March 2021. The provision coverage on non-NPA assets, excluding the management overlay provision, stood at 98 bps; and at 134 bps including the management overlay provision. BFL has entered FY2023 with portfolio quality better than pre-covid.

## Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, systems, or human factors, or from external events. Operational risk is inherent in BFL's business activities, as well as in the related support functions. The goal is to keep operational risk at an appropriate level relative to the characteristics of BFL's businesses, the markets in which it operates and the regulatory environment.

BFL has in place an internal Operational Risk Management Framework to manage the operational risk in an effective and efficient manner. This framework aims at assessing and measuring the magnitude of risks, its monitoring and mitigation. The key objective is to enable the Company to ascertain an increased likelihood of an operational risk event occurring in a timely manner to take steps to mitigate the same. It starts with identifying and defining Key Risk Indicators ('KRI')/Key Performance Indicators ('KPI') through process analysis and ending with formulation of action plans in response to the observed trends in the identified metrics. This is achieved through determining key process areas, converting these to measurable and quantifiable metrics, setting tolerance thresholds for the same and monitoring and reporting on breaches of the tolerance thresholds in respect of these metrics. Corrective actions are initiated to bring back the breached metrics within their acceptable threshold limits by conducting the root cause analysis to identify the failure of underlying process, people, systems, or external events.

The businesses, along with support units and operations, play a critical part in managing operational risk daily, in addition to implementing internal control related policies and procedures. Continuous monitoring of risk is carried out at multiple levels through 'KRI'/'KPI' control chart.

- To enhance the effectiveness of internal processes, system and controls and to ensure compliance with regulations and instructions, BFL has defined well over 5,000 KPIs that it monitors across various business and functions regularly.
- It ensures complete process adherence at the time of customer onboarding and formed compliance teams across businesses to monitor adherence to policies and process. As part of this, BFL concurrently reviews four areas: info-security, process lapse, misinformation, and mis-selling.
- It has established a 'Customer Complaints Root Cause Analysis' team under the customer experience officer to fix policy and process gaps leading to customer complaints.
- It has also established cross-functional teams to identify and implement processes changes keeping customer expectations in mind. Such initiatives also involve a combination of process, policy, and system level changes.
- The operations unit has a dedicated process compliance team for concurrent audits to monitor adherence to laid down policies and processes.
- Controls on operations processes executed from branches and the Head Office have been strengthened through defined processes to be adhered to by customer facing and operations staff.
- As a part of the control governance, the operations compliance team conducts periodic audits and actions are taken in accordance with the Company policy.
- It has also established hind-sighting processes and control charts to monitor operations compliance and adherence.

BFL has opted for a bottom-up approach of risk identification where internal compliance teams have been created in respective businesses/functions to drive ownership and culture of minimising operational risk by developing a strong control culture by making first line of defence, which owns the risk.

Internal compliance units consist of following which cover the length and breadth of the customer life cycle.

- **Sales Compliance:** Embedded in business units with focus on increasing controls in the sales units to assist onboarding of customers. It ensures complete process adherence at the time of customer onboarding and has formed compliance teams across businesses to monitor adherence to policies and process. As part of this, BFL concurrently reviews four areas: information security, process lapse, misinformation, and mis-selling.
- **Process Compliance Unit:** Embedded in operations and debt management services to monitor processes focused on customer transaction, services, and debt management related services. In the previous year, BFL had established a 'Customer Complaints Root Cause Analysis' team under the customer experience officer to fix policy and process gaps leading to customer complaints. This has led to significant reduction in customer complaints in FY2022.
- **Technology Compliance Unit:** Embedded in the information technology unit with focus on internal environment (network, applications, quality, cloud services, data management and security) and on external environment (review of rules and regulations).
- **Risk Unit:** Focus on product programme and related credit policy adherence in the loan book. The activity aims at making sure that loans which are disbursed adhere to the policies and procedures put in place by the organisation.

## Technology

Technology is at the forefront of BFL's business transformation journey and it has continuously leveraged existing and emerging technologies to launch new products, accelerate customer acquisition and improve customer experience along with simplifying the back-office processes. The Company has embarked on a major business transformation journey i.e. the 'omnichannel' model to build dominance across all mediums of consumer presence covering physical, app, web and social. This model is expected to deliver significant business velocity, reduction in operating costs and significant improvement in customer experience.

The Company has made significant changes to its enterprise technology architecture to deliver the 'omnichannel' model and meet the on-demand scaling requirement for high velocity transaction volumes. The Company has re-built its customer facing mobility app with:

- A refreshed interface layer;
- Payments stack: wallets, UPI, bill pay service, single payment checks out gateway;
- Customer engagement features: through its app programs, rewards, offers, deals, location-based services;
- Enhanced service engagement features and information with robust search mechanism for loans and deposits;
- Frictionless loans, investments and insurance buy journeys;
- Digitised EMI card and co-brand credit card with improved service features; and
- An all-encompassing, 55+ core features in the new customer interface.

To deliver this new customer experience, the Company has also made significant upgrades in the integration, data and core platform layer. BFL has built and migrated over 600 APIs (Application Program Interface) to a more robust micro services based technology infrastructure to ensure minimal latency. This infrastructure is built to handle significantly higher transaction velocities. Further, the underlying transaction data layer has been migrated from relational database schema to No SQL database for scale and high user loads.

BFL has developed four proprietary marketplaces. These are: (i) the 'EMI Store'; (ii) the 'Insurance Marketplace'; (iii) the 'Investment Marketplace'; and (iv) the 'Broking App' with the help of group companies.

These apps provide customers with an option to review, compare and buy host of financial products and services across electronics, insurance and investments category.

Payments is core to delivering Omnichannel strategy. BFL has launched its own wallet called 'Bajaj Pay,' which offers payment options via UPI, EMI card, or credit card. This payments piece sits as the frontline engagement tool for customers on a day-to-day basis and the payments offering is linked with a unique reward system— offering called 'Triple Reward' — a customer can choose between cashback, Bajaj coins or vouchers. The Company is in process of creating a 'Bajaj Pay' payments solution for its over 120,000 merchant partners.

Payments is the main engagement tool both for BFL's customers and merchants. While making progress on its payments journey from customers perspective, BFL is also deploying merchant solutions and capabilities which will enable merchant onboarding, payments one view, business one view, marketing campaigns execution and rewards. In FY2023, the Company has plans to deploy POS machines, QR solutions and its own payment gateway.

The core premise of building the Omnichannel strategy is to make customers move seamlessly between online and offline channels. To provide a single gateway for online and offline customer transactions and to improve the productivity, engagement, collaboration within the team, BFL has built the Sales One App and the Collection One App which will leverage underlying platforms and bring a unified experience for the sales and debt management teams.

The Company has migrated to integrated marketing cloud and customer data platform for digital marketing and sales campaigns. This is enabling communication and calling governance apart from digital channel orchestration and campaign management.

BFL continuous to invest in various capabilities in the data science space such as search facility on our various digital properties, Optical Character Recognition (OCR), Natural Language Processing (NLP), and machine learning based models. These technologies are enabling frictionless customer experience at various touch points.

To improve its cyber security posture, BFL has migrated all its critical internet facing properties behind a well-known cloud based web application firewall to safeguard against web application and DDOS attacks. We will continue our focus on automation of security orchestration for timely response to cyber incidents through our security operations centre.

## **Analytics**

Data, technology, and analytics are core enabling pillars of BFL's transformational journey. Over the last few years, there has been continued focus and investment in this space and the Company has reached a stage where business application of data solutions is now a business-as-usual practice across all the stages of customer life cycle.

BFL uses business intelligence and analytics across all spheres of its operations. In doing so, it continues to widely democratise its analytical capabilities across the Company. It builds and deploys analytical models across new customer acquisition, cross-sell, propensity management, risk management, collections management and customer service.

Adoption of evolving technologies and analytical tools like big data, cloud computing and open source software like R and Python have continued to deepen — which have allowed access to statistical techniques that were not possible in the past. These have taken analytics and portfolio insights to a level where solutions are much more nuanced and specific.

The Company has started to build and implement multiple machine learning (ML) models. Investments made towards capabilities like OCR, unstructured to structured data etc. have now started to go live and get integrated with business processes. These state-of-the-art technologies enable decision engines with real

time processing capabilities. These also enable unique customer propositions like 'get it now' and 'straight through processing' to constantly push towards a smoother and frictionless experience for our customers. In doing so, BFL is conscious of customer's privacy and ensures customer consent is obtained for any cross-sell offerings.

These capabilities have given the confidence to commit significant investments to further the use of these new domains. Here are some examples:

- BFL's entire data ecosystem and analytic workloads are now hosted on the Microsoft Azure platform. This allows computational flexibility to develop and deploy big data workloads. Over 1,000+ users are actively using the infrastructure.
- BFL continue to expand its suite of statistical models for risk management across all stages of the credit lifecycle – acquisition, account management and debt management. Capabilities like OCR have enabled structuring of unstructured data, providing new sets of variables for further refining risk models, and making these more granular to capture specific nuances as we expand and go deeper in geographies.
- BFL's capability on risk analytics and scorecards helps adherence to the expected credit loss (ECL) based provisioning requirement. This has also led BFL to redefine and strengthen its governance and processes around model monitoring and build controls around continuous validation of risk scorecards.
- Analytics solutions on product recommendation at point-of-sale, response propensity for targeted cross-sell, call volume forecasting for efficient capacity planning and the like are embedded in the Company's business processes. BFL continues to refine these solutions on an on-going basis.
- The developments in data infrastructure has enabled the risk and process units to run real time controls across multiple decisioning and operational processes to further strengthen the credit and operations risk management framework.
- BFL continues to explore and test latest analytical tools and solutions and are currently working in areas like knowledge graphs. Exploration of potential use cases across businesses are being evaluated to test the new analytical capabilities.
- We are continuously developing the culture of data orientation and analysis to solve day-to-day problems through data democratisation of the analytical, data science and centre of excellences across multiple businesses and functions. Multiple data science training and practitioner programs have also been implemented. We also have an active campus hiring framework with focus on technology and data science through the BFL Bajaj Young Technical Engineers (BYTE) program.

## Customer Service

BFL is constantly striving to provide best experiences to its customers while ensuring that complaints are reduced. The Company regularly captures 'Customer Feedback' and 'Employee Feedback on Customer VOC' to simplify its processes and bring delight to its customers. It always aims to reduce the time to disburse loans with minimal documentation and has enhanced and introduced varied communication and service channels to keep its customers regularly informed and to instantly address their queries and requests.

BFL has adopted the Net Promoter Score (NPS) – a comprehensive global methodology to measure customer loyalty – to gauge the outcome of its customer engagement efforts. This survey is conducted through an independent third party and its results play a central role in the Company's future planning process.

Our self-service chat BOT provides support to customers across its website, portal, mobile app and the Wallet. BFL also has an interactive voice based self service capability on Google Assistant and Alexa. These help customers in answering their basic queries. It has also introduced 'Google Business Messaging' for its customers by integrating its BLU BOT with Google search and Google Maps on Android. Customers can now locate BFL branches on Google Maps. For non-digitally savvy customers, BFL has provisioned a 'Dynamic Missed Call Service' for getting life-stage based details of latest relationships with BFL. To improve

communication reach and effectiveness, the Company also communicates with the customer through mobile messaging apps.

BFL also enables various offerings in the language preferred by its customers. It provides critical documents like loan agreements, fair practice code (FPC) and branch notices in the language of their choice. In addition, customer communications through digital channels like IVR and mobile apps are also available to customers in vernacular languages.

BFL has a dedicated team for customer relationship that deals with the concerns or complaints raised by the customers. It has implemented the grievance redressal mechanism, the RBI Ombudsman scheme, and Internal Ombudsman (IO) scheme within the organisation to deal with the unresolved concerns and complaints. More recently, the RBI introduced the Internal Ombudsman scheme extended to NBFCs on a selective basis in which the IO at the apex of the NBFC's shall independently review the resolution provided by the NBFC in the case of wholly or partially rejected complaints. BFL has appointed two IOs, who will independently review the resolution provided by the Company in the case of wholly or partially rejected complaints.

### **Complaints and grievance redressal**

Complaint reduction was a major theme in FY2022. A dedicated 'Customer Complaints Root Cause Analysis' team has been created to identify and fix policy and process gaps leading to customer complaints.

### **Communications**

A dedicated team to work on customer communications was created to:

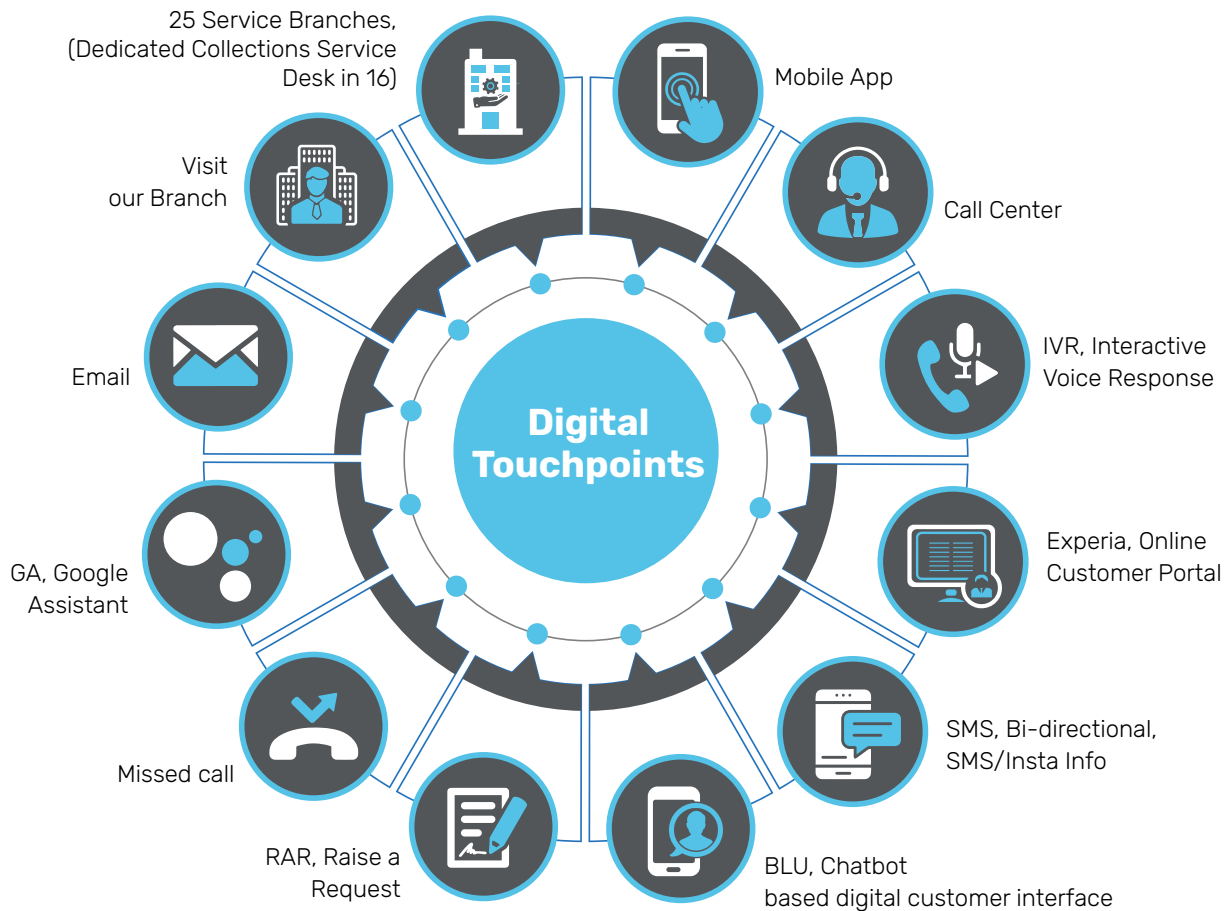
- Standardise communications across businesses, channels and platforms;
- Ensure that customers are informed sufficiently in advance with respect to various lifecycle events to avoid communication gap. This was done by reviewing customer's journey across products and businesses; and
- Ensure maximum coverage in terms of customers receiving intended communications.

22 mini educational videos were created and disseminated to front-end teams (at branches/call centres) to be further disseminated to customers over email/SMS. These videos explain how to use different modules in the app. These videos are also made available on YouTube for wider coverage. Training was provided to all call centres and rural/urban branches. These mini videos have had over 40 million views with about 6.5 million users on a monthly basis.

### **Service channels**

BFL envisages to be an omnipresent financial company and having a strategy will enable its existing and new customer to engage, transact and be serviced online to offline and vice-versa. Below are the channels where customer can reach out to the Company for raising concerns, queries and Complaints related to their loans, products, services etc.





## Credit Rating and Asset Liability Management (ALM)

BFL enjoys the highest credit rating of AAA/stable from CRISIL, ICRA, CARE and India Rating for its long-term debt programme and A1+ from CRISIL, ICRA and India Ratings for its short-term debt programme. The Company's deposits programme is also rated the highest with credit rating of FAAA/Stable from CRISIL and MAAA(Stable) from ICRA. These ratings reaffirm the high reputation and trust that BFL has earned for its sound financial management and ability to meet financial obligations.

BFL had been initially assigned a long-term issuer credit rating of 'BBB-/stable' and a short-term issuer credit rating of 'A-3' by S&P Global Ratings for its external commercial borrowings (ECB) programme. On 26 June 2020, S&P downgraded the long-term rating of BFL to 'BB+/Stable' and short-term rating to 'B' owing to tough operating conditions arising out of the COVID-19 pandemic. Subsequently, on account of the Company's performance during FY2022, S&P has revised its outlook from 'Stable' to 'Positive' on 30 March 2022 while retaining the Long-Term Rating at 'BB+' and short-term rating at 'B'.

The Company's consolidated total borrowing was ₹ 165,232 crore as on 31 March 2022. Its Asset Liability Management Committee (ALCO), set up in line with the guidelines issued by the RBI, monitors asset liability mismatches to ensure that there are no imbalances or excessive concentrations on either side of the balance sheet. BFL business model lends itself to having an inherent ALM advantage due to large EMI inflow emanating from short tenor businesses which puts it in an advantageous position for servicing of its near-term obligations.

BFL's robust liquidity management framework has ensured that enough liquidity was available throughout FY2022 to meet its debt service obligations and business growth requirements.

At a consolidated level, BFL maintained an average liquidity buffer of ₹ 13,052 crore in FY2022, representing 9% of its average outstanding borrowings in FY2022. It had a consolidated liquidity surplus of ₹ 10,110 crore as on 31 March 2022, representing 6% of outstanding borrowings.

Despite maintaining higher liquidity buffers, BFL calibrated its finance cost by resorting to incremental low-cost borrowings from the money markets and reduction in interest rate of existing facilities from banks. These actions enabled the borrowings cost for FY2022 to decrease by 103 bps compared to FY2021.

The Company exceeds the regulatory requirement of liquidity coverage ratio (LCR) introduced by the RBI in FY2020. This requirement stipulates that all deposit taking NBFCs are required to maintain 50% of its expected net cash outflows for next 30 days in a stressed scenario in high quality liquid assets (HQLA) by December 2020; which has to be increased to 100% by December 2024 in a phased manner. Currently, the LCR requirement is at 60% for BFL, which will move to 70% from 1 December 2022. For BHFL, the current LCR requirement is at 50% and will move to 60% from 1 December 2022.

As of 31 March 2022, BFL maintained LCR of 134%. BHFL maintained LCR of 131%. Both are well above the RBI's stipulated norms.

Table 5 gives the behavioural maturity pattern of BFL's asset and liabilities; and depicts its prudent approach towards ALM management. As can be seen, BFL has maintained significantly cumulative positive ALM position across all buckets including the 1-7 days, 8-14 days and 15-31 days, while the extant RBI regulation permits a negative ALM mismatch of up to 10%, 10% and 20% respectively.

**Table 5: Behaviouralised ALM snapshot as on 31 March 2022**

(₹ in crore)

Particulars	1 to 7 days (one month)	8 to 14 days (one month)	15 to 30/31 days (one month)	Over one month to 2 months	Over 2 months to 3 months	Over 3 months to 6 months	Over 6 months to one year	Over one year to 3 years	Over 3 to 5 years	Over 5 years	Total
<b>A. Inflows</b>											
Cash and investments	641	1,266	1,704	1,112	205	4,948	3	2,387	641	8,863	21,771
Advances	10,145	1,593	4,032	6,773	6,632	16,296	24,253	46,580	18,731	12,652	147,685
Trade receivable and others	2,967	79	201	95	696	115	1,084	38	242	2,635	8,151
<b>Total inflows</b>	<b>13,752</b>	<b>2,938</b>	<b>5,936</b>	<b>7,980</b>	<b>7,532</b>	<b>21,359</b>	<b>25,340</b>	<b>49,004</b>	<b>19,615</b>	<b>24,150</b>	<b>177,607</b>
<b>B. Cumulative total inflows</b>	<b>13,752</b>	<b>16,690</b>	<b>22,627</b>	<b>30,607</b>	<b>38,139</b>	<b>59,498</b>	<b>84,838</b>	<b>133,843</b>	<b>153,457</b>	<b>177,607</b>	
<b>C. Outflows</b>											
Borrowings repayment	6,450	3,364	1,051	2,964	6,114	10,404	25,940	48,931	10,092	11,374	126,685
Other outflows	4,826	293	1,351	1,500	54	2	46	113	287	395	8,866
Capital reserves and surplus										42,056	42,056
<b>Total outflows</b>	<b>11,276</b>	<b>3,657</b>	<b>2,402</b>	<b>4,464</b>	<b>6,168</b>	<b>10,406</b>	<b>25,986</b>	<b>49,044</b>	<b>10,379</b>	<b>53,825</b>	<b>177,607</b>
<b>D. Cumulative total outflows</b>	<b>11,276</b>	<b>14,933</b>	<b>17,335</b>	<b>21,799</b>	<b>27,966</b>	<b>38,372</b>	<b>64,359</b>	<b>113,402</b>	<b>123,781</b>	<b>177,607</b>	
<b>E. Gap (A - C)</b>	<b>2,476</b>	<b>(719)</b>	<b>3,535</b>	<b>3,516</b>	<b>1,365</b>	<b>10,954</b>	<b>(647)</b>	<b>(39)</b>	<b>9,236</b>	<b>(29,676)</b>	
<b>F. Cumulative gap (B - D)</b>	<b>2,476</b>	<b>1,757</b>	<b>5,291</b>	<b>8,808</b>	<b>10,172</b>	<b>21,126</b>	<b>20,479</b>	<b>20,440</b>	<b>29,676</b>	<b>-</b>	
<b>G. Cumulative gap (%) (F/D)</b>	<b>22%</b>	<b>12%</b>	<b>31%</b>	<b>40%</b>	<b>36%</b>	<b>55%</b>	<b>32%</b>	<b>18%</b>	<b>24%</b>	<b>-</b>	
<b>H. Permissible cum. gap (%)</b>	<b>(10%)</b>	<b>(10%)</b>	<b>(20%)</b>								

The assigned portfolio outstanding as on 31 March 2022 stood at ₹ 2,466 crore on a standalone basis and of ₹ 6,029 crore on a consolidated basis.

BFL's judicious strategy of maintaining a longer duration for liabilities than assets, coupled with an optimal mix of borrowings between banks, money markets, external commercial borrowings and deposits have helped the Company to effectively manage its net interest margin throughout FY2022.



# Borrow when you need, pre-pay when you can

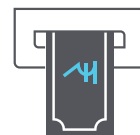
With a Flexi Personal Loan for all your needs



Up to 45%  
lower EMIs\*



Loan of up to  
Rs. 25 lakh



Multiple withdrawals  
and part payments

\*T&C apply

## Human Resources

People are our key pillars of strength. This belief was further strengthened as our people showed tremendous resilience and extraordinary commitment during the pandemic times to bring the Company back to its core performance.

We have adopted people practices that enable us to attract and retain talent in an increasingly competitive market; and to foster a work culture that is always committed to providing the best opportunities to employees to realise their potential. We are committed as an equal opportunity employer.

Our stated philosophy of 'Do More Earn More' rewards people for their performance and contribution – which are anchored on metricised work deliverables and directly reflected in their earning potential. This ensures ownership and empowerment of our employees all the way down to its frontline facing staff.

BFL has a strong orientation to learning and development. All employees, from a new joiner to a tenured one, are provided tailored learning opportunities as per their role, level, and specific focus area. At early career stages, the focus is on making the employee role ready through functional knowledge and skill-based training, moving to managerial capability building at mid-levels, and leadership at senior levels. Even the topmost levels of leadership undergo a leadership programme every year.

We provide our employees opportunities to learn, grow and take their career forward through transparent Internal Job Posting (IJP) and Auto-Promotion policies. IJP allows employees to apply for a role of their interest, thus giving them the choice to acquire multi-disciplinary skills to shape their career. It also leads to development of well-rounded talent for the Company. Over 13,000 employees grew through the ranks under the aegis of these programs.

Several key initiatives were undertaken during the year as part of the HR Zero Based Budgeting framework. Recognising the importance of structured onboarding and training of new joiners, a new framework of On-the-Job-training (OJT) has been launched. This provides for planned conversations between a new employee and the manager for a period of one year to ensure hand holding, training and support. A platform, Employee 360 has been built to facilitate and record these conversations and feedbacks.

To support the digital transformation agenda of the Company, the need for tech talent was recognised and a young talent programme called Bajaj Young Technical Engineers (BYTE) was launched. A campus program, BYTE aims to attract and build ground-up tech talent for the Company. In the current year, 260 new engineers have been offered to join BFL from seven chosen campuses. This programme will become a foundational frame for the Company with the objective to staff over 60% of the technical manpower requirements over the next few years.

To enthuse employees to go from 'Good to Great', we have in place a robust reward and recognition framework. We reward and recognise exemplary performance, unique contribution and delivering change efforts. A selected group of employees (approximately 1%) join the exclusive club of achievers called the 'Excelsior League' every year. The league invites the selected employees and their families to join the recognition celebration at a company-level function.

In order to serve our large and diverse base of employees, BFL has formulated policies and practices that cater to their varying needs based on gender, age groups and geographic locations. Some of these policies and practices are given below.

- A fortnightly salary policy enables an employee to take salary on fortnightly basis instead of a monthly credit.
- Money-on-call policy allows an employee to take salary in advance in situation of urgent cash requirement for personal reasons.
- A spouse consultant policy encourages qualified spouses to work on special projects in the Company on a flexible timing basis to fulfil their career aspirations while balancing the family demands at home.

- A spectrum policy provides benefits to women employees covering safety, cab facility, travel policy, flexible working hours, preferential transfer policy, maternity linked benefits, creche benefits etc. Our corporate office has over 25% female employees.
- Differentiated skill enhancement training programs for employees in rural locations are imparted through our 'Rural Training Centre'.

In line with its business transformation strategy, the Company has made significant changes to its employee policies and practices. BFL has adopted a twin lens approach in its human resource practices: one that caters to the needs of its large distributed employee base across its offices, and the second which focuses on rapidly scaling its talent pool across critical domains such as technology, analytics and data science. The transformation aims to build future focused, employee centric and technology enabled practices and processes. The core of this transformation is to empower managers to chart out the career progression of their teams. The manager is enabled and empowered with data and technology platforms that help him take on this responsibility. The HR function takes the responsibility of enablement, governance and assisting the cultural shift.

The well-being of our employees has always been at the centre of our philosophy. BFL has tied-up with various partners to assist employees in managing their physical and mental health using tele-consultation and counselling facilities. It has a comprehensive mediclaim policy for employees and their immediate family members which can be extended to cover parents. It also has an employee participatory financial assistance programme called i-Care for emergency situations whether medical or otherwise. The Company encourages employees to enrol in this programme and contribute a small amount from their monthly salaries, which is matched by BFL contributing an equal amount.

COVID-19 created an unprecedented health crisis, especially during the second wave. We at BFL took multiple initiatives to ensure safety and well-being of employees and their families and extended financial and logistical support towards diagnosis and treatment. These include a dedicated 24x7 helpline to track the health of our employees, assistance for doctor consultation and financial aid. As vaccines became available, the Company supported employees in completing their vaccination. Further, the Bajaj group of companies supported mega vaccination drives through which we were able to administer over 1 million doses of the COVID-19 vaccine to beneficiaries of Pune and Aurangabad districts.

Below are some key highlights of the mega vaccination drives, which started in August 2021:

- Delivered by more than 600 COVID-19 Vaccination Centres (CVCs). This was spread across the city, rural and slum areas of Pune and Aurangabad.
- Over 5,000 frontline healthcare workers were deployed on-ground to support the initiative.
- The Bajaj group of companies contributed ₹ 170 crore to support the nationwide fight against COVID-19, alleviate the immediate on-ground challenges, build capabilities and resources. This included the installation of 12 oxygen plants to provide more than 5,000 LPM of oxygen supply to rural and urban hospitals, respiratory support equipment like oxygen concentrators, ventilators and BiPaps to help augment their capacity in treating COVID-19 patients.

These drives were supported by mass awareness and engagement programs to encourage the participation of eligible population for their first and second doses of the vaccine.

The pandemic took a toll in the current year with the Company losing 25 colleagues to COVID-19. Support was extended to the families of the deceased employees under the 'Family Assistance Program'. This covers financial support to the impacted family for 48 months and educational assistance to children till the age of 21.

BFL is committed to create a vibrant and inclusive workplace for all its employees and actively takes steps to ensure these are well enshrined in our policies and practices. We remain an equal opportunity employer and

follow non-discrimination in all our practices. As on 31 March 2022, BFL, including its subsidiaries, had 35,425 full-time employees. It added 6,876 employees in FY2022.

## Awards and Recognition

During the year, BFL and its key personnel received the following prestigious awards:

- Bajaj Finance has been recognised in the top 30 best places to work for in the BFS Sector 2022 by the 'Great Place to Work' Institute.
- Bajaj Finance bagged Gold for 'Digital Marketing Excellence in Financial Services' for its Fixed Deposit digital campaign at the DIGIXX 2019 Awards by Adgully.
- Rajeev Jain, Managing Director, was conferred with the 'Champion of Champions', honour in the prestigious Business Today-PwC India's Best CEOs rankings.
- Sandeep Jain, Chief Financial Officer, was lauded as one of the best CFOs in the country at the highly acclaimed FE CFO Awards, 2022, in the category of Large Enterprises - Servicing Sector

## Internal Control Systems and their Adequacy

BFL has robust internal controls system in place, driven through various procedures and policies which are reviewed and tested periodically, across all processes, units and functions. Our risk and credit teams have the eye on the market; have inbuilt processes to identify the existing and probable risks and to mitigate the identified risks. Senior management also monitor the mitigating measures. The Company has various committees including Risk Management Committee and the Asset and Liability Committee, with participation from various functions, which are designed to review and oversee critical aspects of the Company's operations.

BFL has instituted the three lines of defence model, viz.

- First Line of Defence - Internal Operation Management and Management Controls
- Second Line of Defence - Risk and Compliance function
- Third Line of Defence - Internal Audit function

BFL has a dedicated control functions for testing design and efficiency of ICOFR on regular basis and timely remediation of control deficiencies identified, if any. Further, the Company monitors Information and Technology General Controls (ITGC) on a periodic basis. The Company has formed specialised units within IT and operations function for carrying out regular checks to ensure process set for these functions are complied with and gaps, if any, identified are set right on regular basis. The control functions implement, review and monitor the standards and lay down standard policies and procedures by which the functions manage risks including compliance with regulatory guidelines and applicable laws, adherence to operational controls and relevant standards of conduct.

The Company has implemented required controls through systems and processes ensuring a robust control framework. It has an Information Systems Audit team, as a part of its Internal Audit team, to identify and address technology and IT-related security issues commensurate with the nature and complexities of its operations. The Internal Audit department and compliance function review the business unit's adherence to internal processes and procedures as well as to regulatory and legal requirements providing timely feedback to Management for corrective action, including minimising the design risk, if any.

BFL's Risk Management, Operational Risk Management, Information Technology and Cyber Security practices have been already elaborated in earlier sections of this chapter.

The Audit Committee of the Board also reviews the performance of the audit and compliance functions and reviews the effectiveness of controls and compliance with regulatory guidelines. In the opinion of Board of Directors and the senior management, internal control systems are well placed and working in an efficient manner.

Further vide the RBI's notification dated 3 February 2021, BFL is required to implement Risk-Based Internal Audit (RBIA) methodology by 31 March 2022, which would be linked to the Company's overall risk management framework. The Company opted for an advance implementation with effect from 1 April 2021. BHFL, though not required to have RBIA, has voluntarily adopted the same.

## Fulfilment of the RBI's Norms and Standards

BFL fulfils and often exceeds the applicable norms and standards laid down by the RBI relating to the recognition and provisioning of Stage III (qualifying non-performing) assets, capital adequacy, statutory liquidity ratio, liquidity coverage ratio etc. Table 6 demonstrates BFL and BHFL's prudent practices detailing its performance ratios compared to the minimum requirements of the RBI.

During the recent period, the RBI has issued following important circulars: -

- Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs dated 22 October 2021 was issued by the RBI, which has given an implementation timeline of up to October 2022. Subject to some clarifications and detailed guidelines to be issued by the RBI, BFL is confident of implementing these before the deadline.
- Prompt Corrective Action (PCA) Framework for NBFCs issued on 14 December 2021. We analysed the Company's performances; and as per the PCA framework issued by the RBI, BFL doesn't fall into any risk threshold category.
- Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances: clarifications issued on 12 November 2021 with respect to classification and upgradation of non-performing accounts. Further, RBI vide its circular dated 15 February 2022 allowed deferment of implementation of Para 10 of circular dated 12 November 2021 with respect to upgradation of NPA accounts of till 30 September 2022. As a matter of prudence, BFL has not opted for this deferment and implemented the 12 November 2021 circular in entirety with effect from the third quarter ended on 31 December 2021.
- Risk-Based Internal Audit (RBIA) dated 3 February 2021. The Company was required to implement the RBIA methodology by 31 March 2022. BFL opted for advance implementation with effect from 1 April 2021

**Table 6: BFL and BHFL's regulatory ratios compared to the minimum requirements of the RBI**

Particulars	Bajaj Finance Ltd.		Bajaj Housing Finance Ltd.	
	As of 31 March 2022	RBI stipulation	As of 31 March 2022	RBI stipulation
Capital to Risk-weighted Assets Ratio (CRAR)	27.22%	15%	19.71%	15%
Of which Tier-I	24.75%	10%	18.95%	10%
Statutory Liquidity Ratio	18.70%	15%	NA	NA
Liquidity Coverage Ratio	134%	60%	131%	50%
Assets liability mismatch				
1-7 days	22%	(-)10%	7%	(-)10%
8-14 days	12%	(-)10%	8%	(-)10%
15-30 days	31%	(-)20%	7%	(-)20%

## Bajaj Housing Finance Ltd. (BHFL)

Bajaj Housing Finance Ltd. (BHFL), a wholly owned subsidiary of BFL, was granted a Non-Deposit taking Housing Finance Company license by the National Housing Bank (NHB) in September 2015 to carry the business of housing finance. BHFL started its lending operation from July 2017.

BHFL offers the following products to its customers: (i) home loans; (ii) loans against property; (iii) lease rental discounting; and (iv) developer financing. It also has a dedicated vertical offering home loans and loan against property to the rural sector and to MSME customers.

BHFL enjoys the highest credit rating of AAA/stable from CRISIL and India Rating for its long-term debt programme and A1+ from CRISIL and India Ratings for its short-term debt programme. These reaffirm the reputation and trust BHFL has earned for its sound financial management and ability to meet financial obligations.

In FY2022, BHFL crossed a milestone of ₹ 50,000 crore of assets under management. Having reached this scale, the key focus of BHFL is to build scale across all its portfolios through process excellence and consistent customer experience. To continue its growth momentum across retail and commercial businesses, BHFL is continuously investing in geographic expansion and deepening of its structures.

BHFL focuses on low risk segments across its portfolio. Individual housing loans, a low risk segment, contribute to about 65% of the portfolio. Even within the low risk individual housing loans segment, nearly 95% of AUM consists of loans given to salaried and self-employed professional segments for fresh housing loan acquisitions. Going forward, it intends to also grow self-employed and affordable housing segment with a calibrated risk strategy to cover full spectrum of housing loan market.

BHFL is committed to building an optimal mix of housing and non-housing loan portfolio to balance risk and returns. BHFL has created a prudent developer financing model with an immaculate portfolio performance. Going forward, BHFL plans to: (i) deepen relationship with existing developers; (ii) expand reach to new developers with granular exposure strategy; (iii) expand its developer financing offerings to new geographies; and (iv) create presence with the large developers.

In the commercial real estate portfolio, BHFL continues to expand its product suite by adding new product variants like commercial construction finance, lease rental discounting for build to suit warehousing and lease rental discounting for industrial properties. Going forward, BHFL plans to further deepen relationship with its customers and create customised products with highest standards of service.

BHFL offers highest standards of engagement and service to its retail and corporate customers. BHFL is continuously investing in creating frictionless processes to provide seamless and consistent experience to its customer throughout the loan lifecycle.

## Business Update

COVID-19 negatively affected the economy throughout FY2021; and BHFL's operations were hampered as well. FY2022 also started with the first quarter seeing subdued disbursements due to trailing effect of the second wave. Post the first quarter, business resumed its momentum quarter by quarter and ending the year with the highest level of business activity.

BHFL utilised the pandemic period to streamline and automate its processes to help improve turnaround time to its customers as well as customer experience. AUM attrition remained at elevated levels throughout the year due to significantly increased levels of competitive activity in the industry with banks becoming more aggressive on acquiring retail mortgage assets at some of the lowest interest rate levels seen in recent past. However, BHFL was able to navigate through the year with the support of its lower cost of funds which helped it to remain competitive and acquire new customers for growth.



In the second half of the year, BHFL made significant investments in people and in expanding its geo-footprint to support its future business growth. To fund the growth plans of next couple of years, Board of Directors of BHFL approved raising of additional ₹ 2,500 crore through rights issue to Bajaj Finance Ltd. This got infused on 7 April 2022. With this seventh round of capital raise, BHFL now has a capital base of ₹ 9,241 crore.

During the year, BHFL achieved a significant milestone of crossing ₹ 50,000 crore of Assets under Management (AUM) in just the fourth full year of operations. BHFL's AUM grew by 37% to ₹ 53,322 crore as on 31 March 2022. It also seeded a new business line focusing on the affordable segment. The business is in nascent stage and currently in pilot mode across two cities and is expected to start delivering from second half of FY2023.

## Home Loans

BHFL offers home loans for ready to move in homes as well as those under construction to mass affluent salaried customers in 62 locations across India with an average loan value of ₹ 4.7 million. It follows a micro-market presence strategy using a mix of direct and indirect channels. It is the only housing finance company that, on a proactive basis, started offering its customers external benchmark (repo) linked home loans, which is published by the RBI. At the end of FY2022, the home loans business had AUM of ₹ 33,515 crore, a growth of 40% compared to the end of FY2021.

## Loan Against Property

BHFL offers Loans Against Property (LAP) to SMEs, MSMEs, self-employed individuals and professionals against mortgage of their residential and commercial properties. The LAP business is operational in 31 locations across India with an average loan value of ₹ 5.6 million. The LAP business ended FY2022 with AUM of ₹ 6,181 crore, or a growth of 30% over FY2021.

## Lease Rental Discounting (LRD)

BHFL focuses on high net-worth individuals (HNIs) and developers for their lease rental discounting needs with loan amounts ranging from ₹ 5 crore to ₹ 550 crore. This entails financing against lease rental cashflows of commercial properties occupied by prominent lessees under a long-term lease contract. During the current year, BHFL also started offering construction finance for commercial properties to existing LRD customers as well as warehousing LRD. These products are offered across 10 cities in India. The AUM from lease rental discounting grew by 49% in FY2022 to ₹ 7,224 crore.

## Developer Loans

BHFL offers construction and inventory finance to small and mid-size developers with strong track records of timely delivery of projects and loan repayments with average loan value of ₹ 25 to ₹ 30 crore. It is present in eight locations across the country. Developer relationships enable BHFL to acquire retail customers for home loans. BHFL also offers inventory finance to developers against their unsold completed construction inventory. Repayments for these loans are secured through escrow arrangements. The AUM of this business stood at ₹ 2,875 crore as on 31 March 2022.

## Rural Mortgage Loans

BHFL offers home loans and loans against property to salaried and self-employed customers across 85 small towns in India. During the year, it expanded its presence to Tier III locations by opening 24 centres as a part of the geo-expansion plan. Rural mortgages business operates at an average loan value of nearly ₹ 1.5 million per customer. This business helps BHFL widen its geographic reach and reduce portfolio concentration. This business closed FY2022 with AUM of ₹ 1,923 crore.

## Partnerships and Services

In partnership with various financial service providers, BHFL offers life insurance, general insurance, health insurance, online primary healthcare assistance services and other financial services products to its customers.

**Table 7: BHFL's Standalone Financials**

Particulars	(₹ in crore)		
	FY2022	FY2021	Change
Total income	3,767	3,155	19%
Interest and finance charges	2,155	1,966	10%
<b>Net interest income</b>	<b>1,612</b>	<b>1,189</b>	<b>36%</b>
Total operating expenses	471	329	43%
<b>Pre-impairment operating profit</b>	<b>1,141</b>	<b>860</b>	<b>33%</b>
Impairment on financial instruments	181	247	(27%)
<b>Profit before tax (PBT)</b>	<b>960</b>	<b>613</b>	<b>57%</b>
<b>Profit after tax (PAT)</b>	<b>710</b>	<b>453</b>	<b>57%</b>
Other comprehensive income/(expenses)	(1)	1	
<b>Total comprehensive income</b>	<b>709</b>	<b>454</b>	<b>56%</b>
Earnings per share (EPS) basic, in ₹	1.45	0.93	

**Table 8: BHFL's Assets Under Management**

Particulars	(₹ in crore)		
	FY2022	FY2021	Change
Housing loans (including top ups)	33,515	23,943	40%
Loan against property	6,181	4,753	30%
Lease rental discounting	7,224	4,838	49%
Developer finance	2,875	2,057	40%
Rural mortgage loans	1,923	1,980	(3%)
Other loans	1,604	1,300	23%
<b>Total</b>	<b>53,322</b>	<b>38,871</b>	<b>37%</b>

## Bajaj Financial Securities Ltd. (BFinsec)

Bajaj Financial Securities Ltd. ('BFinsec'), a wholly owned subsidiary of BFL, is registered with the SEBI as a stock broker and depository participant. BFinsec started its business operations from August 2019 with a strategy to ring fence loan against securities (LAS) customers of BFL by providing them a full suite of investment products and services. During the year, BFinsec expanded its presence from three branches to seven. It offers demat, broking, margin trade financing and financing for offer for sale to retail and HNI clients. It offers spread financing to its customers through BFL. It also offers various financing solution through BFL to its customers. These include financing for new equity listing (IPO finance), financing for employee stock option plan (ESOP finance) and spread financing. During the year, BFinsec started offering US investment option to its customers through a third-party service provider.

With a view to provide better trading experience to its customers, BFinsec upgraded its website and mobile trading app to add the following major capabilities:

- Global Indices: Feature to allow our users to track leading Global Index at one place.
- Multiple Charts: Support four charts simultaneously to offering charting solution to client needs.
- E-collect Feature: Quick and hassle-free fund addition via IMPS/RTGS and NEFT payment.
- Square Off all: Single click square off of all open positions and holdings.
- Application for IPO and NCDs through BFinsec's trading app.
- Stock Alerts and notifications.
- Guest Login with virtual trading feature.

BFinsec launched the SAMADHAN platform oriented towards offering customer services via self-help Q&As and ticket-based query resolution for various customers queries. It also launched its Partner Portal aimed at acquiring and servicing partner network for driving customer acquisition. It has expanded its Independent Business Associate ('IBA') channel to drive low cost customer acquisition across all geographies and also to cross-sell third party products including that of BFL.

With a base of approximately 331,000 customers as of 31 March 2022, BFinsec offers the following:

### **HNI Demat and Broking**

BFinsec offers demat and broking services to affluent HNI clients, who get an option of call-in-trade service through dedicated traders. It offers customised brokerage plans to such clients which can be availed based upon their trading needs. HNI clients with high trading volumes are provided an option of a trading terminal. As on 31 March 2022, BFinsec had over 5,550 HNI clients.

### **Retail Demat and Broking**

BFinsec offers demat and broking services to retail clients through a set of customised discount broking plan to choose from based upon the trading needs. BFinsec offers trading facility over a web portal and a mobile app. Retail client can also avail value added services of call-in-trade from BFinsec. During first half of the year BFinsec accelerated its retail customer acquisition and added over 159,750 customers. In second half of the year, BFinsec shifted its focus on customer activation. As on 31 March 2022, BFinsec had over 325,700 such customers.

### **Margin Trade Financing (MTF)**

BFinsec offers MTF facility to both HNI and retail clients, who can purchase approved securities by paying required margin and the balance amount is funded by BFinsec. As on 31 March 2022, the MTF AUM stood at ₹ 720 crore.

During the year, BFL infused ₹ 400 crore of additional share capital in BFinsec to fund its near-term growth plans. BFinsec generated total income of ₹ 124 crore and profit after tax of ₹ 17 crore in FY2022.

Table 9 give the snapshot of BFinsec's operations in FY2022.

**Table 9: BFinsec's Standalone Financials**

Particulars	(₹ in crore)	
	FY2022	FY2021
Total income	124	36
Interest and finance charges	29	3
<b>Net interest income</b>	<b>95</b>	<b>33</b>
Total operating expenses	72	24
<b>Pre-impairment operating profit</b>	<b>23</b>	<b>9</b>
Impairment on financial instruments [₹ 0.27 crore, FY2021 ₹ 0.09 crore]		
<b>Profit before tax (PBT)</b>	<b>23</b>	<b>9</b>
<b>Profit after tax (PAT)</b>	<b>17</b>	<b>6</b>
Other comprehensive income/(expenses) [₹ (0.12) crore, FY2021 ₹ (0.01) crore]		
<b>Total comprehensive income</b>	<b>17</b>	<b>6</b>
Earnings per share (EPS) basic, in ₹	0.54	0.42

## Concluding Comments

BFL had to steer through a very difficult FY2021 and then got back to its growth profile in FY2022. During the hiatus, the Company focused on building efficiencies, applications, systems, and processes across the Board to transform its journey into an omnipresent financial services NBFC. This journey, though well on its way, has just begun. We are extremely excited about this transformation journey. While doing so, the Company has generated excellent operational and financial results for FY2022.

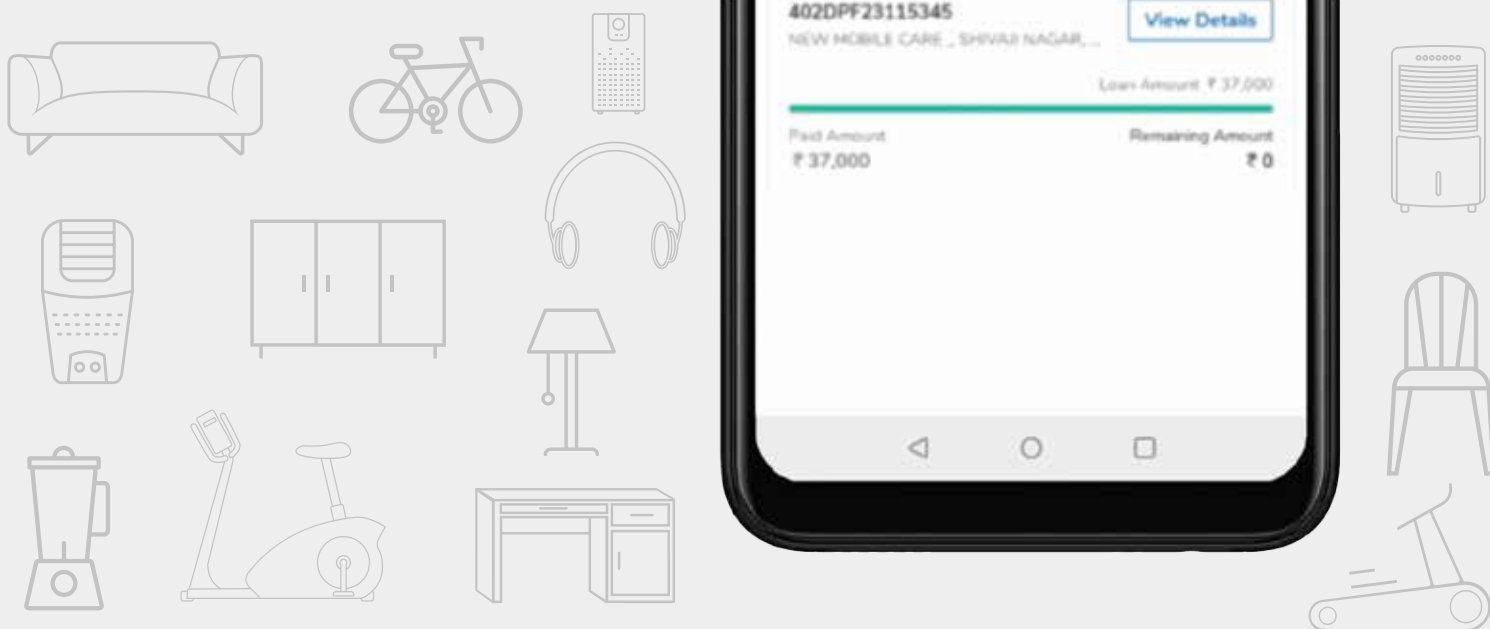
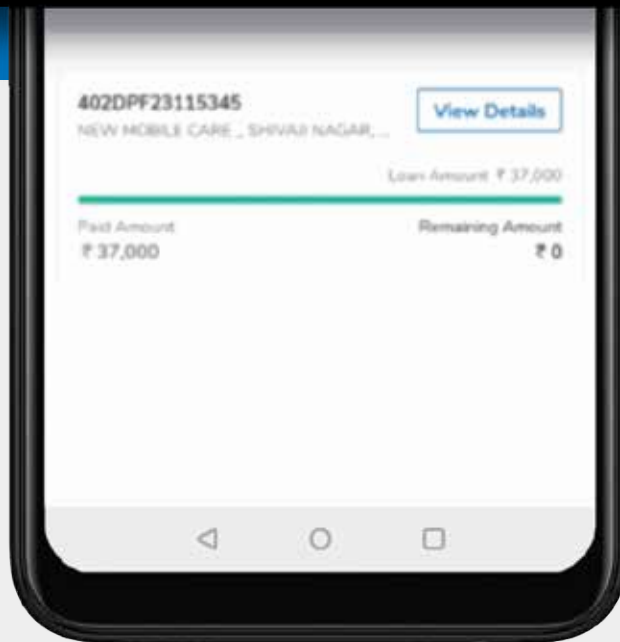
It is almost tempting to say that the worst is over. And that we are set on a solid path of sustainable growth – as was the case for 13 years prior to FY2020. But it is better to let our performance speak for itself. As we believe, it will in the years to come.

Even so, it is worth letting the facts speak. Table 10 depicts BFL's key indicators for the last 15 years. Let the numbers talk, as these will.



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**Table 10: Key Financial Indicators: Last 15 years**

Financial year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	CAGR
Assets under Management	2,478	2,539	4,032	7,573	13,107	17,517	24,061	32,410	44,229	60,196	82,422	1,15,888	1,47,153	1,52,947	1,97,454	37%
Income from operations	503	599	916	1,406	2,172	3,110	4,073	5,418	7,333	9,989	12,757	18,500	26,386	26,683	31,639	34%
Interest expenses	170	164	201	371	746	1,206	1,573	2,248	2,927	3,803	4,614	6,623	9,473	9,414	9,748	34%
Net interest income (Nil)	332	435	715	1,035	1,426	1,904	2,500	3,170	4,406	6,186	8,143	11,877	16,973	17,269	21,892	35%
Operating expenses	193	220	320	460	670	850	1,151	1,428	1,898	2,564	3,270	4,197	5,662	5,308	7,585	30%
Loan losses and provision	109	164	261	205	154	182	258	385	543	804	1,030	1,501	3,929	5,969	4,803	31%
Profit before tax	30	51	134	370	602	872	1,091	1,357	1,965	2,818	3,843	6,179	7,322	5,992	9,504	51%
Profit after tax	21	34	89	247	406	591	719	898	1,279	1,837	2,496	3,995	5,264	4,420	7,028	51%

Ratios	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Opex to Nil	58.1%	50.6%	44.8%	44.4%	47.0%	44.6%	46.0%	45.0%	43.1%	41.4%	40.2%	35.3%	33.5%	30.7%	34.6%
Return on assets	0.7%	1.4%	2.8%	4.4%	4.2%	4.1%	3.6%	3.3%	3.5%	3.7%	3.7%	4.2%	4.1%	3.1%	4.2%
Return on equity	2.0%	3.2%	8.0%	19.7%	24.0%	21.9%	19.5%	20.4%	20.9%	21.6%	20.1%	22.5%	20.2%	12.8%	17.4%
Net NPA *	7.0%	5.5%	2.2%	0.8%	0.12%	0.19%	0.28%	0.45%	0.28%	0.44%	0.43%	0.63%	0.65%	0.75%	0.68%
NPA provisioning coverage	30%	32%	55%	79%	89%	83%	76%	71%	77%	74%	70%	60%	60%	58%	58%
CRAR (standalone)	40.7%	38.4%	25.9%	20.0%	17.5%	21.9%	19.1%	18.0%	19.5%	20.3%	24.7%	20.7%	25.0%	28.3%	27.2%
Leverage ratio	2.6	2.5	3.8	5.9	6.4	5.3	6.2	6.8	6.3	6.6	5.4	6.3	5.1	4.7	4.9

Note:

- As per RBI regulations, NNPA percentages for up to 2015 are at 6 months overdue, 2016 is at 5 months overdue, 2017 is at 4 months overdue, 2018 to 2021 are at 3 months overdue and 2022 is at 91 days overdue.
- All figures till including FY2017 are as per previous GAAP, whereas for FY2018 onwards are as per IndAS
- All figures from FY2018 onwards are on consolidated basis except

## Cautionary Statement

Some statements in this Management Discussion and Analysis describing the Company's objectives, projections, estimates and expectations may be 'forward looking' within the meaning of applicable laws and regulations. Actual results may differ from those expressed or implied.