

Bajaj Finance Ltd.

28 January, 2023

Reuters: BJFN.NS; Bloomberg: BAF IN

BUY

Sector: NBFC

CMP: Rs5,756

Target Price: Rs7,107

Upside: 23%

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Key Data

Current Shares O/S (mn)	605.4
Mkt Cap (Rsbn/US\$bn)	3,487.7/42.8
52 Wk H / L (Rs)	7,778/5,220
Daily Vol. (3M NSE Avg.)	1,054,550

Price Performance (%)

	1 M	6 M	1 Yr
Bajaj Finance	(11.0)	(18.6)	(16.1)
Nifty Index	(2.8)	2.6	2.9

Source: Bloomberg

Stable margin and lower cost aid profitability

Bajaj Finance reported net profit growth of 40% YoY, which was in line with our estimate, led by healthy operating performance and lower provisions. AUM momentum slowed marginally, coming in at 5.7% QoQ (27% YoY) as the company prioritized margins over growth. Customer acquisition was at a record high level of 3.14mn in 3QFY23 and the company is on track to acquire >11mn customers for FY23. NII growth came in at 25% YoY, largely in-line with our estimate, driven by AUM growth. NIM compressed on YoY basis. Moreover, adjusting for the discontinued IPO financing business last year, NIM would have been largely flat. Core fee income remained healthy at 19% YoY, leading to net revenue growth of 24% YoY. Opex increased by 24% YoY and consequently cost/income ratio was largely flat on YoY basis at 34.7%. The management indicated that most of the investment has been done and as operating leverage kicks in, the cost/income ratio is likely to decline going forward. Operating profit increased by 23.8% YoY, which was 3% above our estimate. Moreover, provisions declined by 20% YoY to Rs8.4bn, leading to 40% YoY growth in PAT at Rs27.8bn. Overall, credit cost stood at 1.5%. Overall, the company's digital strategy is progressing well, with various metrics on the app business, payments, marketplace etc reporting a sequential improvement. Also, the company plans to foray into multiple product lines going forward. We expect FY25E ROA/ROE of 4.4%/23.4%. We maintain BUY on Bajaj Finance with a target price (TP) of Rs7,107 (5.8x 1HFY25 ABVPS).

Expect core AUM growth of Rs520-530bn for FY23: The company's AUM growth momentum moderated marginally as it prioritized margins over growth. The management indicated that competitive intensity in the mortgage segment was higher and thus growth was on the lower side comparatively, registering a growth of 26% YoY to Rs734.8bn. Overall AUM grew by 5.7% QoQ/27.4% YoY to Rs2,308.4bn. As per our estimates, total disbursements jumped by 46% YoY. B2B disbursements increased by 6% YoY and the management mentioned that demand was muted post the festive season in Nov-Dec'22. However, January'23 is turning out to be good. Growth was broad-based, except B2B, which lacked pace. Also, mortgage growth was slower on account of intense pricing pressure. Mortgages/Securities Lending/SME Lending grew by 26%/45%/33% YoY. Overall, the product mix remained steady across nine different verticals. The management indicated that the company plans to offer MFI loans and would first target UP and Bihar and then expand into other states. Moreover, the management indicated that for FY23, they expect core AUM to expand by Rs520-530bn.

Asset quality stable: Asset quality was stable, with both GNPA/NNPA improving marginally by 3bps by to 1.14%/0.41% vs 1.17%/0.44% QoQ. The provision coverage ratio also improved to 64% vs 62% in 2QFY23. Within segments, Auto Finance continued to witness significant improvement in asset quality, with GNPA declining by 202bps. Total credit cost stood at 1.5%, increasing by 11bps QoQ.

Y/E March (Rsmn)	Q3FY23	Q3FY22	Q2FY23	YoY (%)	QoQ (%)
Operating Income	104,024	81,783	96,075	27.2	8.3
Interest Expense	33,512	25,345	29,714	32.2	12.8
Net Interest Income	70,512	56,438	66,361	24.9	6.3
NIM (%)	10.5	10.8	10.5	-29 bps	6 bps
Other income	3,835	3,568	3,648	7.5	5.1
Total Income	74,347	60,005	70,009	23.9	6.2
Staff Cost	12,856	10,157	12,393	26.6	3.7
Other Op Exp	12,962	10,656	12,751	21.6	1.7
Total Operating Expenses	25,818	20,814	25,144	24.0	2.7
Cost to Income (%)	34.7	34.7	35.9	4 bps	-119 bps
Pre-provisioning Operating Profit	48,529	39,192	44,865	23.8	8.2
Provisions	8,413	10,512	7,342	-20.0	14.6
PBT	40,116	28,680	37,523	39.9	6.9
Tax	10,387	7,427	9,716	39.9	6.9
-effective tax rate	25.9	25.9	25.9	0 bps	0 bps
PAT	29,729	21,253	27,807	39.9	6.9
EPS (Rs)	49.1	35.2	45.9	39.5	6.9
BV (Rs)	845	681	794	24.0	6.5
AUM (Rsbn)	2,308	1,813	2,184	27.4	5.7

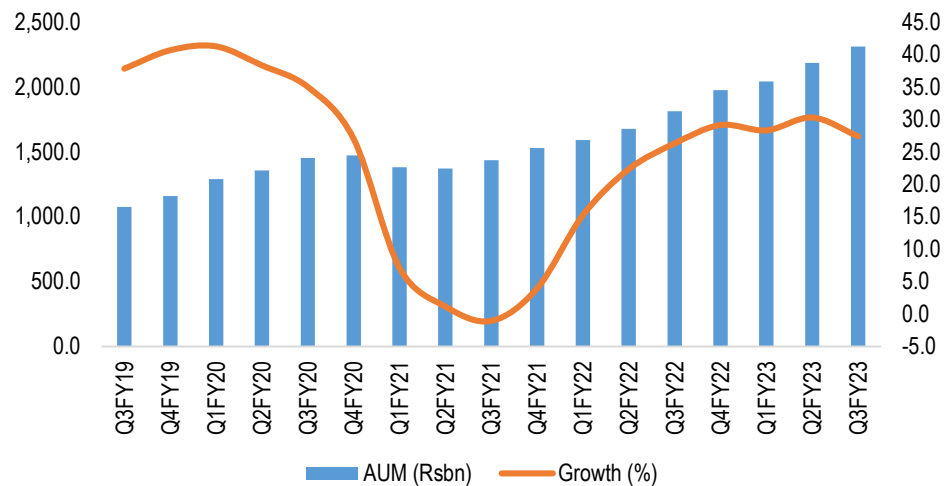
Source: Company, Nirmal Bang Institutional Equities Research

Margin pressure witnessed due to high competition: NII grew by 6.3% QoQ/~25% YoY, driven by AUM growth. NIM at 10.5% was flat QoQ, contracting marginally by 6bps. Calc. yields stood at 16.5% vs 16.1% in 2QFY23 and 16.7% in 3QFY22. Reported CoF stood at 7.14%, increasing by 23bps QoQ. Moreover, the management indicated that in the fixed rate business segment, the company has been able to pass on 50-70bps of rate hikes. Due to ALM management, the company was able to curtail the impact of higher interest rates. The company maintained liquidity buffer of ~Rs128bn vs Rs93bn in 2QFY23. Cost/income ratio at 34.7% improved by 119bps QoQ as operating leverage started to kick in. Moreover, the management indicated that this level will be sustained going forward too. Given the high competitive intensity, the management mentioned that their focus will be on maintaining margins.

Key takeaways from the concall and presentation

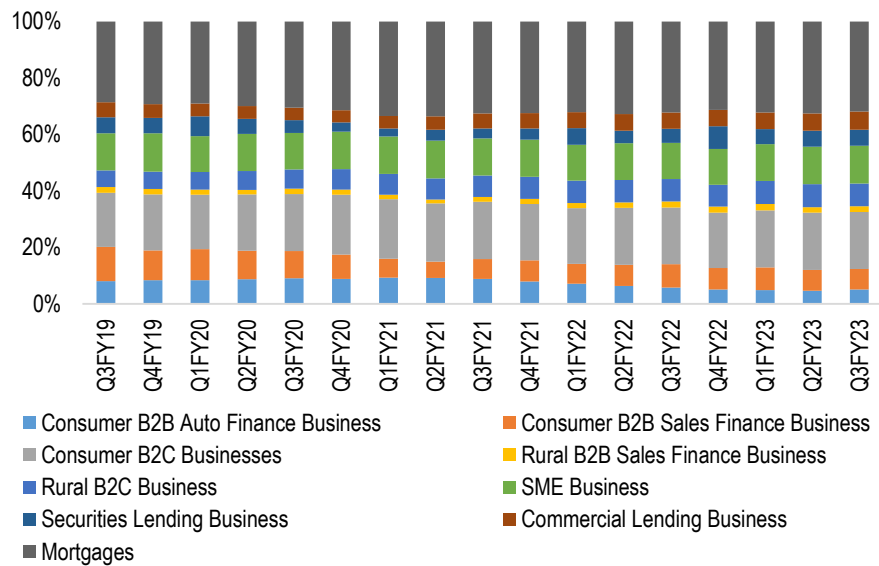
- The management has given their Long Range Strategy (LSR) framework, which is a five-year rolling strategy plan with an execution of 12-24 months. The company will re-evaluate in October every year.
- As per the strategy, the company aims to:
 - 1) Become the leading payments and financial services company with more than 100mn customers
 - 2) Be omnipresent by way of physical branches, applications, web and social media
 - 3) Cross-sell wide variety of products viz. payments, deposits, insurance, investments and broking across all consumer platforms
 - 4) To build businesses with a 10-year view and deliver 19-21% shareholder returns
 - 5) Each business segment to be among the top 5 in their respective product category
 - 6) Be among the top 20 profit making companies and top 5 financial services companies
- The management is confident of delivering core AUM growth of Rs520-530bn
- The company recorded highest-ever new customer addition of 3.14mn and expects total customer acquisition to be >11mn for FY23
- Added 29 new locations in 3QFY23 and plans to open 250-300 branches for FY23 as opposed to the guidance of 400 branches
- Customer franchise stood at ~66mn and the management is confident of ending FY23 at 68.5-69mn
- The company acquired a ~41.5% stake in Snapwork Technologies Pvt Ltd. for Rs927.4mn to strengthen its technology infrastructure
- The company has no plan to become a bank
- Commission from the insurance segment contributes significantly to the overall fee income
- There are no plans to grow through the inorganic route

Exhibit 1: AUM (Rsbn), AUM growth (% YoY)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: AUM mix (%)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Segment-wise AUM growth rate (% YoY)

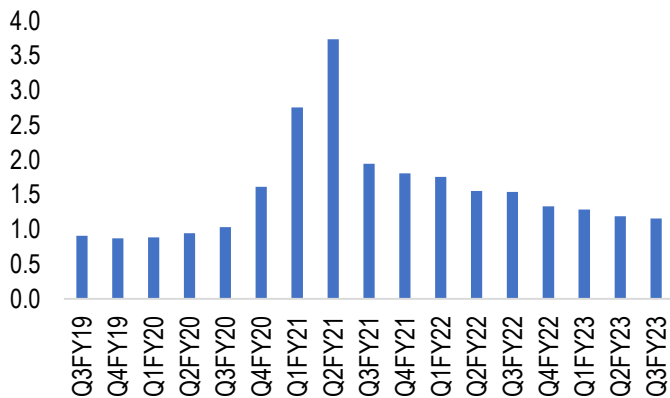
Segment wise growth (% YoY)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Consumer B2B Auto Finance Business	-3.6	-7.4	-11.4	-15.4	-16.4	-15.8	-12.2	-5.4	11.0
Consumer B2B Sales Finance Business	-27.0	-8.9	21.1	58.6	46.5	29.9	47.4	29.5	12.0
Consumer B2C Businesses	-1.2	-2.6	7.5	19.2	25.1	27.3	31.2	30.9	28.6
Rural B2B Sales Finance Business	-10.0	8.0	39.5	80.2	63.8	43.2	56.6	32.9	17.3
Rural B2C Business	10.0	10.9	21.9	30.0	30.6	29.4	33.5	33.9	29.0
SME Business	1.0	4.1	11.3	19.8	22.6	23.6	30.6	32.1	33.4
Securities Lending Business	-22.1	25.5	133.3	40.1	79.9	162.7	17.0	64.6	45.3
Commercial Lending Business	15.5	29.4	48.3	49.5	39.5	38.6	33.6	36.5	41.7
Mortgages	5.8	7.4	10.8	19.4	24.7	24.4	28.5	29.5	26.0

Source: Company, Nirmal Bang Institutional Equities Research

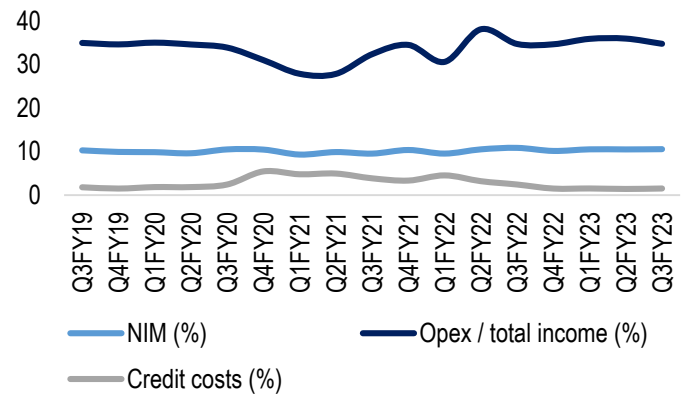
Exhibit 4: Segment-wise asset quality (%)

Segment-wise GNPA (%)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Auto finance business	5.7	6.5	5.8	4.5	11.5	9.3	19.2	16.0	11.0	11.0	10.2	8.0	6.0
Sales finance business	0.9	1.3	1.0	0.3	1.9	1.1	1.1	0.6	0.3	2.8	0.3	0.5	0.6
Consumer B2C business	1.3	1.6	1.4	0.8	3.3	1.7	2.8	2.1	1.3	1.0	0.8	0.9	1.1
Rural B2B business	0.6	0.6	0.2	0.1	2.1	1.1	1.4	1.1	0.2	0.2	0.2	0.5	0.6
Rural B2C business	1.3	1.5	1.3	0.9	3.6	1.7	2.9	3.1	2.6	1.2	1.0	1.2	1.3
SME business	1.4	1.7	0.9	1.1	2.3	0.9	2.2	1.7	1.4	1.4	1.3	1.5	1.5
Securities lending business	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Commercial lending business	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.4	0.4	0.3	0.3	0.2
Mortgages	1.4	0.5	0.7	0.6	1.0	0.9	0.9	1.0	1.0	0.9	0.7	0.7	0.6
Total	1.6	1.6	1.4	1.0	2.9	1.8	3.0	2.4	1.7	1.6	1.3	1.2	1.1
Segment-wise NNPA (%)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Auto finance business	2.6	3.1	2.2	1.6	1.1	4.8	12.2	9.3	5.8	5.8	5.4	4.2	3.1
Sales finance business	0.2	0.4	0.3	0.1	0.0	0.3	0.2	0.1	0.1	1.3	0.1	0.1	0.1
Consumer B2C business	0.4	0.5	0.3	0.2	0.1	0.4	1.0	0.5	0.3	0.2	0.2	0.2	0.3
Rural B2B business	0.1	0.1	0.0	0.0	0.0	0.3	0.3	0.2	0.1	0.0	0.0	0.1	0.1
Rural B2C business	0.4	0.5	0.4	0.2	0.1	0.4	0.9	1.3	1.4	0.4	0.3	0.4	0.4
SME business	0.4	0.6	0.3	0.3	0.1	0.2	0.7	0.4	0.4	0.4	0.3	0.4	0.4
Securities lending business	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Commercial lending business	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.2	0.2	0.1	0.1
Mortgages	1.0	0.3	0.4	0.4	0.2	0.6	0.6	0.6	0.5	0.4	0.3	0.3	0.3
Total	0.7	0.7	0.5	0.4	0.2	0.7	1.5	1.1	0.8	0.7	0.5	0.4	0.4
Segment-wise PCR (%)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Auto finance business	54.0	52.4	61.9	64.7	90.7	48.0	36.4	42.2	47.1	47.0	47.3	47.9	48.6
Sales finance business	80.4	73.7	68.0	83.3	99.5	76.6	77.1	79.7	80.0	53.0	81.3	83.0	84.4
Consumer B2C business	71.6	69.8	76.5	75.0	97.9	74.1	66.5	74.4	74.4	74.7	74.7	75.3	75.0
Rural B2B business	79.7	81.8	75.0	78.6	100.0	76.6	78.5	80.7	79.2	87.5	85.7	85.2	85.2
Rural B2C business	66.9	66.7	67.7	75.0	97.8	76.4	67.7	58.6	44.3	68.9	71.3	71.5	72.4
SME business	74.5	67.1	69.7	70.4	94.4	75.5	67.4	74.6	74.8	74.8	75.2	74.5	74.7
Securities lending business	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	16.7	0.0	0.0	0.0	0.0
Commercial lending business	58.3	0.0	25.0	50.0	0.0	0.0	0.0	35.6	38.1	52.6	48.3	48.1	50.0
Mortgages	27.2	35.8	37.7	35.7	80.0	37.0	30.7	39.2	45.3	53.5	54.1	53.8	54.7
Total	56.5	59.6	64.8	64.2	93.1	58.3	51.3	55.5	54.9	57.5	59.2	62.4	64.0

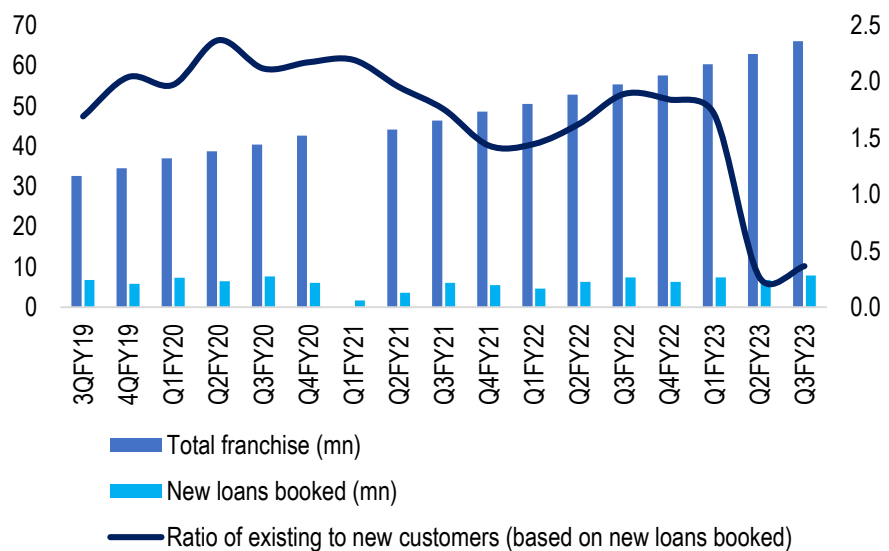
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Stage 1 & 2 coverage (%)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Key financial metrics


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Customer franchise (mn)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Financial summary

Y/E March (Rsbn)	FY21	FY22	FY23E	FY24E	FY25E
NII	159.8	206.6	274.7	343.8	420.8
PPOP	119.4	143.1	187.6	237.3	294.9
PAT	44.1	70.3	114.7	143.8	176.6
Loans	1,508.2	1,974.5	2,513.9	3,215.9	4,012.2
RoA (%)	2.2	3.2	4.6	4.5	4.4
RoE (%)	10.6	16.0	23.4	23.6	23.4
P/ABV	9.7	8.2	6.5	5.3	4.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Actual performance versus our estimates

(Rsmn)	Q3FY23	Q3FY22	Q2FY23	YoY (%)	QoQ (%)	Q3FY23E	Devi. (%)
Net interest income	70,512	56,438	66,361	24.9%	6.3%	69,876	0.9%
Pre-provisioning Operating Profit	48,529	39,192	44,865	23.8%	8.2%	47,254	2.7%
PAT	29,729	21,253	27,807	39.9%	6.9%	30,053	-1.1%

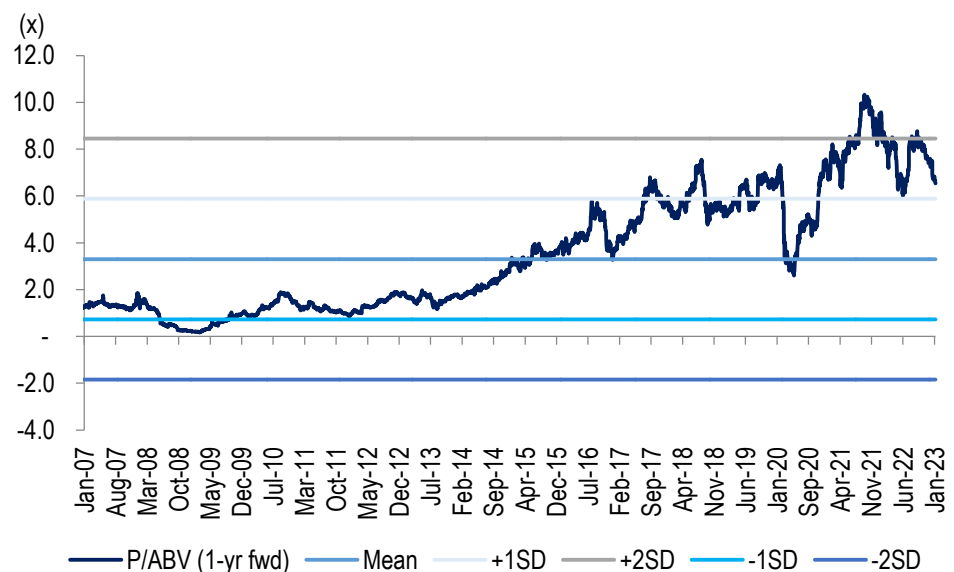
Source: Company, Nirmal Bang Institutional Equities Research.

Exhibit 10: Change in our estimates

Earnings revision	Revised Estimate			Earlier Estimate			% Revision		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net interest income (Rsmn)	274,661	343,815	420,774	275,862	342,909	434,696	-0.4	0.3	-3.2
Operating profit (Rsmn)	187,607	237,330	294,927	191,591	242,675	310,211	-2.1	-2.2	-4.9
PAT (Rsmn)	114,699	143,781	176,590	119,303	151,159	189,424	-3.9	-4.9	-6.8
ROE (%)	23.4	23.6	23.4	24.3	24.6	24.5	-89 bps	-99 bps	-115 bps
Loans (Rsbn)	2,514	3,216	4,012	2,489	3,145	3,917	1.0	2.3	2.4
BVPS (Rs)	896	1115	1383	902	1132	1420	-0.6	-1.5	-2.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: One-year forward P/BV



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 12: Income statement

Y/E March (RsMn)	FY21	FY22	FY23E	FY24E	FY25E
Operating income	254,973	304,114	401,639	523,404	649,464
Interest Expense	95,176	97,482	126,978	179,589	228,691
Net Interest Income	159,797	206,632	274,661	343,815	420,774
Non Interest Income	11,974	12,290	15,201	20,298	25,187
Net Revenue	171,772	218,922	289,862	364,113	445,961
Operating expenses	52,326	75,850	102,256	126,784	151,034
Operating profit	119,446	143,072	187,607	237,330	294,927
Provisions	59,685	48,034	33,339	45,622	59,473
PBT	59,761	95,038	154,268	191,707	235,454
Tax	15,674	24,756	39,569	47,927	58,863
PAT	44,087	70,282	114,699	143,781	176,590

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Balance sheet

Y/E March (RsMn)	FY21	FY22	FY23E	FY24E	FY25E
Share capital	1,203	1,211	1,211	1,211	1,211
Reserves & surplus	362,716	435,920	541,555	673,866	836,078
Shareholders' funds	363,919	437,131	542,766	675,077	837,289
Borrowings	1,314,664	1,652,320	2,119,256	2,758,637	3,451,857
Other liability & provisions	70,656	95,889	134,885	144,223	171,450
Total liabilities	1,749,240	2,185,340	2,796,907	3,577,937	4,460,596
Loans	1,508,168	1,974,520	2,513,916	3,215,865	4,012,171
Cash & investments	204,893	159,258	211,926	275,864	345,186
Fixed & other assets	36,179	51,562	71,065	86,209	103,239
Total assets	1,749,240	2,185,340	2,796,907	3,577,937	4,460,596

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Key ratios

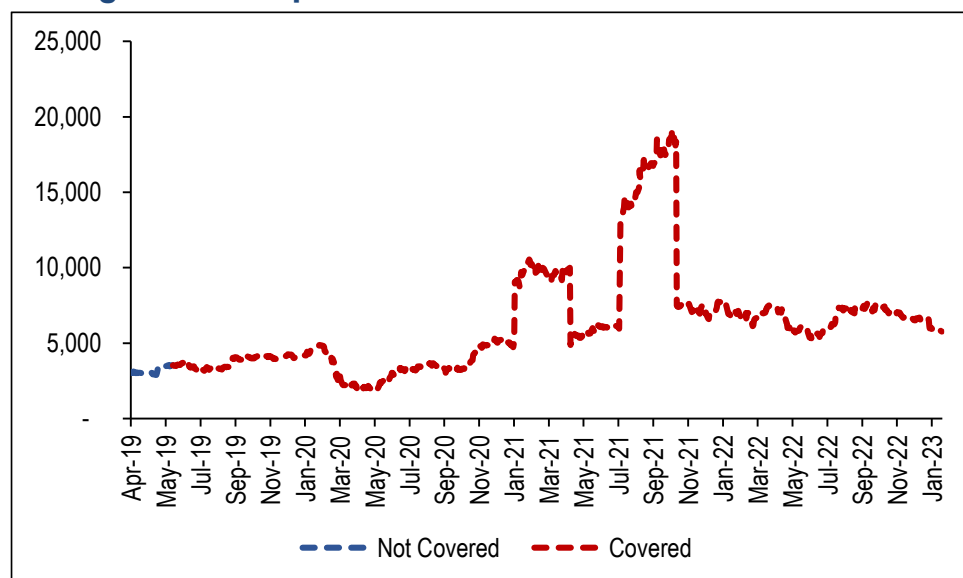
Y/E March - Ratios	FY21	FY22	FY23E	FY24E	FY25E
Growth (%)					
Net interest income	0.8	29.3	32.9	25.2	22.4
Operating profit	5.7	19.8	31.1	26.5	24.3
Profit after tax	-16.8	59.4	63.2	25.4	22.8
Loans	3.9	30.9	27.3	27.9	24.8
Spreads (%)					
Yield on loans	16.4	16.0	16.3	16.3	16.3
Cost of funds	7.5	6.7	6.8	7.4	7.4
Spread	8.9	9.3	9.5	8.9	8.9
NIMs	9.8	10.3	10.5	10.1	9.9
Operational efficiency (%)					
Cost-to-income	32.7	36.7	37.2	36.9	35.9
Cost to avg assets	3.1	3.9	4.1	4.0	3.8
CAR (%)					
Tier I	24.3	21.5	20.2	18.7	19.7
Tier II	2.7	2.7	2.0	2.7	2.7
Total	27.1	24.2	22.2	21.4	22.4
Asset quality (%)					
Gross NPA	1.8	1.6	1.1	1.1	1.1
Net NPA	0.7	0.7	0.4	0.4	0.4
PCR	58.3	58.0	64.2	64.5	64.7
Credit cost	4.2	2.9	1.5	1.6	1.6
Profitability (%)					
ROE	10.6	16.0	23.4	23.6	23.4
ROA	2.2	3.2	4.6	4.5	4.4
Per share (Rs)					
EPS	73	116	189	237	292
BVPS	614	722	896	1115	1383
ABVPS	595	700	880	1094	1357
Valuation (x)					
P/E	78.5	49.6	30.4	24.2	19.7
P/BV	9.4	8.0	6.4	5.2	4.2
P/ABV	9.7	8.2	6.5	5.3	4.2

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
12 June 2020	Buy	2,448	3,026
9 July 2020	Under Review	3,208	-
22 July 2020	Accumulate	3,290	3,459
23 September 2020	Accumulate	3,304	3,664
7 October 2020	Accumulate	3,474	3,902
22 October 2020	Accumulate	3,233	3,564
26 November 2020	Sell	4,690	3,960
8 January 2021	Sell	5,081	4,382
21 January 2021	Sell	4,981	4,391
21 February 2021	Sell	5,499	4,566
28 April 2021	Sell	4,873	4,506
7 June 2021	Sell	5,993	4,500
21 July 2021	Sell	5,938	4,748
26 September 2021	Sell	7,793	6,755
27 October 2021	Sell	7,880	6,914
18 January 2022	Accumulate	7,747	7,982
21 February 2022	Buy	7,011	8,885
27 April 2022	Buy	7,241	8,867
28 July 2022	Buy	6,408	8,122
19 September 2022	Buy	7,292	8,867
21 October 2022	Buy	7,429	8,720
28 January 2023	Buy	5,756	7,107

Rating Track Graph



DISCLOSURES

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