AMBIT
Acumen at work

CELEBRATING 25 YEARS OF ACUMEN!

Bajaj Finance

SELL

INITIATING COVERAGE	BAF IN EQUITY	March 08, 2023

Multiple challenges to gain scale

BAF's one-year forward valuation implies 25% AUM growth with ~20% RoE over the next decade. Despite superior technology/analytics/ processes/distribution, it's a tall task. No Indian lender has grown at >20% for 2 decades. BAF already has large market share in MSME/personal loans within NBFCs where competition is increasing from banks. Home loan growth would be RoA/RoE dilutive due to low NIM. Moreover, commensurate liabilities scale-up would be a challenge as an NBFC due to various regulatory caps on deposit mobilization and exposure of capital providers to NBFCs. Banking license is a solution but would compress RoE to ~15%. Fintech initiatives are unlikely to change the business dynamics much due to late entry and intense competition. Expect slowdown in loan growth and NIM compression to result in AUM growth/ROE tapering off (<20% from FY25), resulting in de-rating of the stock.

Competitive position: STRONG Changes to this position: STABLE

Growth to slow down due to size and competition

No Indian bank/NBFC/HFC has witnessed >20% CAGR for 2 decades. Most of those who did struggled with NPAs or/and growth slowdown (Yes Bank, ICICI, gold loan NBFCs). BAF already has ~23%/45% market share amongst NBFCs in commercial/personal loans wherein competition is increasing from banks. Though BAF's home loan market share is low, product RoA/RoE of ~1.2%/~12% implies that high growth in this segment would be dilutive.

Growing liabilities at a competitive cost would be a challenge

Scaling up liabilities at a reasonable cost would be challenging due to regulatory constraints and no access to low-cost CASA deposits. Growing at 25% CAGR requires surpassing market leader HDFC Ltd's current market share over the next decade, which seems unlikely. Cost of funds is likely to be ~250bps higher vs large banks, making BAF uncompetitive.

Laggard in payment race, banking license is must

BAF is building a digital ecosystem like fintechs to increase its app user engagement. With UPI, e-commerce and food delivery apps cornering most traffic, BAF's success seems unlikely. This space too has become crowded as there are multiple banks/Fintechs already present. BAF has <0.5% market share in UPI payments and digital wallets.

High growth/RoE built in valuations

BAF is the most expensive lender in India, trading at a significant premium to HFCs/NBFCs/large-cap private banks. Consistent high growth/RoE have led to stock re-rating over the years. However, premium over large-cap banks has reduced as growth vs banks has reduced. As growth slows down to ~20% for BAF over FY25-42, expect valuation premium over banks to reduce. We are building in EPS CAGR of 30% (FY22-25) with average RoE of ~22%. Over FY25-42E, we are building in 19% loan growth and 20% RoE.

Key financials

Year to March	FY21	FY22	FY23E	FY24E	FY25E
Net interest income (Rs bn)	139	175	232	273	316
Operating Profits (Rs bn)	115	143	184	218	253
Net Profits (Rs bn)	39	70	114	133	154
Diluted EPS (Rs)	73	116	188	220	255
RoE (%)	11.3%	17.4%	23.4%	22.4%	21.4%
P/E (x)	84.1	53.0	32.7	27.9	24.2
P/B (x)	8.9	8.5	6.9	5.7	4.7

Source: Company, Ambit Capital research

NBFC

Recommendation

Mcap (bn):	Rs 3,715/US$ 45.4
3M ADV (mn):	Rs 7,027/US$ 85.4
CMP:	Rs 6,136
TP (12 mths):	Rs 5,028
Downside (%):	18

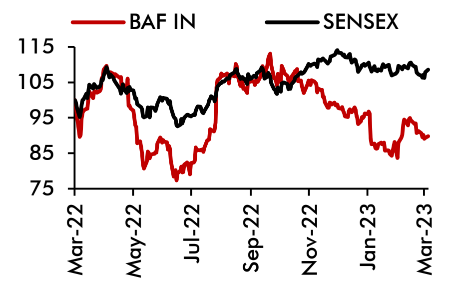
Flags

Accounting:	GREEN
Predictability:	GREEN
Earnings Momentum:	GREEN

Catalyst

- AUM growth to come down below 25% in FY24/25 vs consensus estimates of >25%.
- Average RoE of ~22% (vs consensus RoE of ~23%) over FY22-25 due to decline in loan growth and ~90bps NIM contraction over FY23-25.

Performance (%)



Source: Bloomberg, Ambit Capital research

Research Analysts

Pankaj Agarwal, CFA
+91 22 6623 3206
pankaj.agarwal@ambit.co

Raghav Garg, CFA
+91 22 6623 3206
raghav.garg@ambit.co

Pratik Matkar
+91 22 6623 3206
pratik.matkar@ambit.co

Narrative in charts

Exhibit 1: BAF has achieved extraordinary growth over a decade

	FY09	FY22	CAGR over FY09-22
AUM (Rs bn)	25	1,975	40%
Net profit (Rs mn)	339	70,282	51%
EPS (Rs)	1	116	45%
BVPS (Rs)	30	722	28%

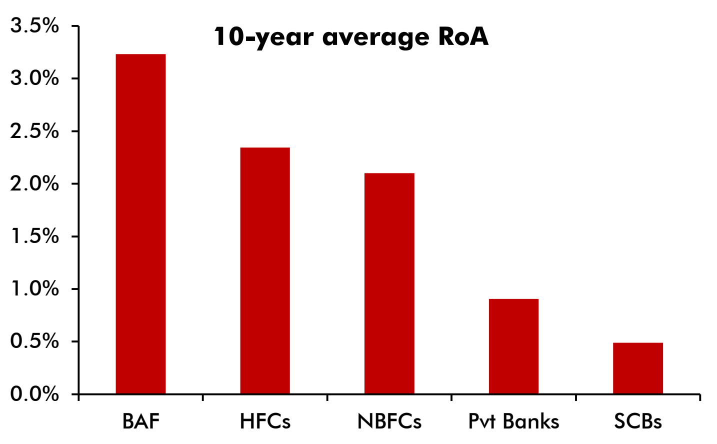
Source: Company, Ambit Capital research

Exhibit 2: Banking sector/Pvt. banks/NBFCs/HFCs grew 12%/18%/20%/21%

Loans/AUM (Rs bn)	FY09	FY22	CAGR over FY09-22
All Banks	28,477	122,587	12%
Pvt Banks	5,191	45,230	18%
NBFCs (Excl. HFCs)*	2,866	26,618	20%
HFCs**	1,532	12,777	21%

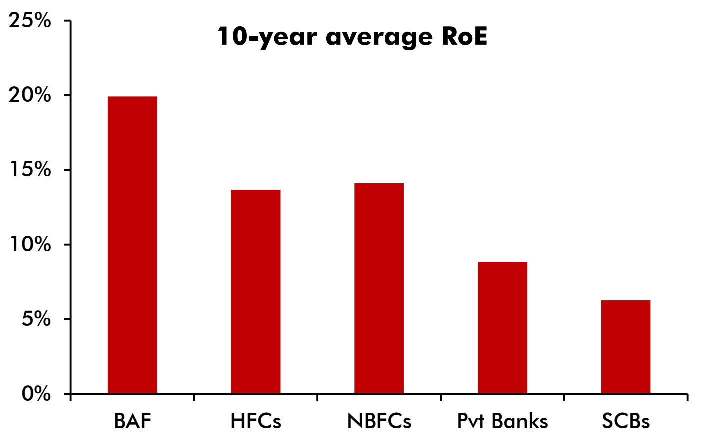
*Source: RBI, National Housing Bank (NHB), Ambit Capital research, *NBFCs CAGR over FY09-1HFY22, **HFCs CAGR over FY10-21*

Exhibit 3: 10-year average RoA of BAF/Banks/HFCs/NBFCs



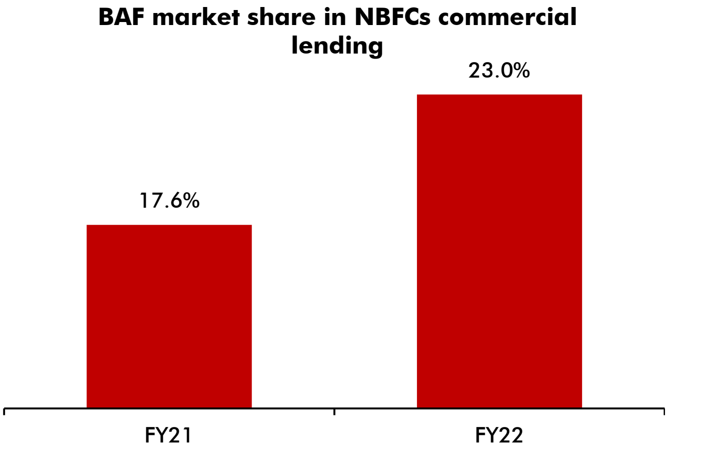
Source: Ace Equity, RBI, Company, Ambit Capital research

Exhibit 4: 10-year average RoE of BAF/Banks/HFCs/NBFCs



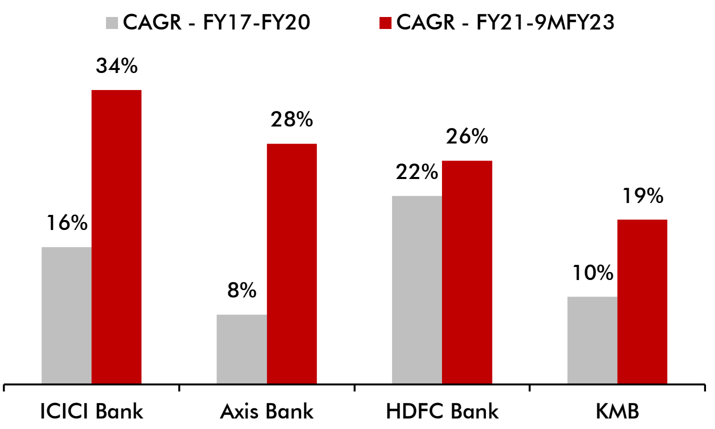
Source: Ace Equity, RBI, Company, Ambit Capital research

Exhibit 5: BAF already has a substantial market share among NBFCs in commercial lending



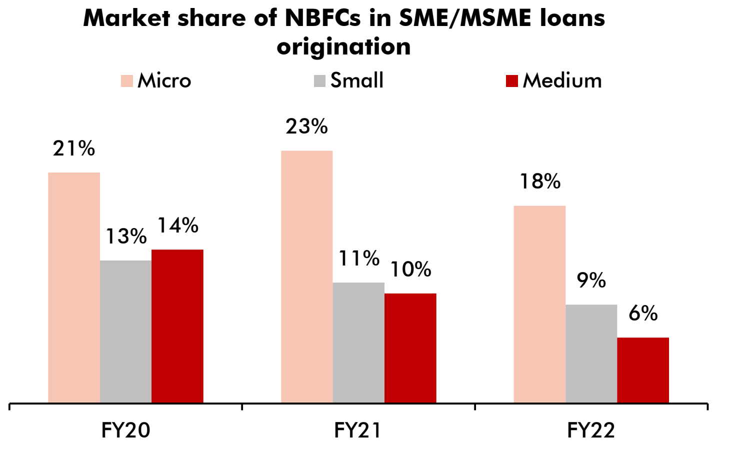
Source: Company, TransUnion CIBIL, CRIF High Mark, Ambit Capital research, Note: Industry benchmark for commercial book comprises of business loans, Micro/SME/MSME loans of Rs1mn to Rs500mn. We have considered LAP, LAS, MSME and commercial loans in BAF commercial loan portfolio.

Exhibit 6: Banks have increased their focused on business banking and commercial banking portfolio



Source: Company, Ambit Capital research, Note: HDFC Bank book consists of emerging corporates and business banking portfolio, ICICI Bank book consists of SME and business banking portfolio, Axis Bank book consists of SME and business loans and KMB book consists of consumer bank (WC) portfolio and business banking portfolio.

Exhibit 7: NBFCs' market share in all sub-segment of MSME disbursements has declined



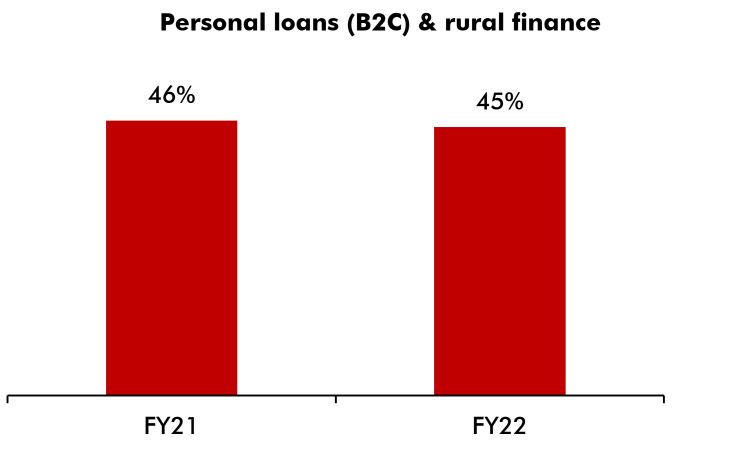
Source: TransUnion CIBIL, Ambit Capital research

Exhibit 8: Only 5% of MSME loans given by banks have >13% yield

Lending Yield	100-250mn SME Loans
<9%	69%
9%-13%	26%
>13%	5%
8.50%	**100%**

Source: RBI, Ambit Capital research

Exhibit 9: BAF market share is marginally down within NBFC space in PL category



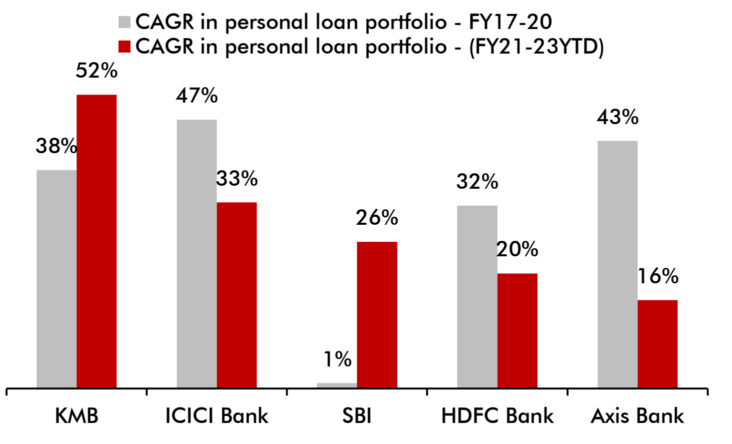
Source: Company, CRIF High Mark, Ambit Capital research, Note: We have considered BAF's Urban B2C and rural portfolio for market share in NBFCs personal loan

Exhibit 10: Only 13% of personal loan portfolio of banks have >13% yield

Lending Yield	% of personal loans
<10%	33%
10%-13%	54%
>13%	13%
10.50%	**100%**

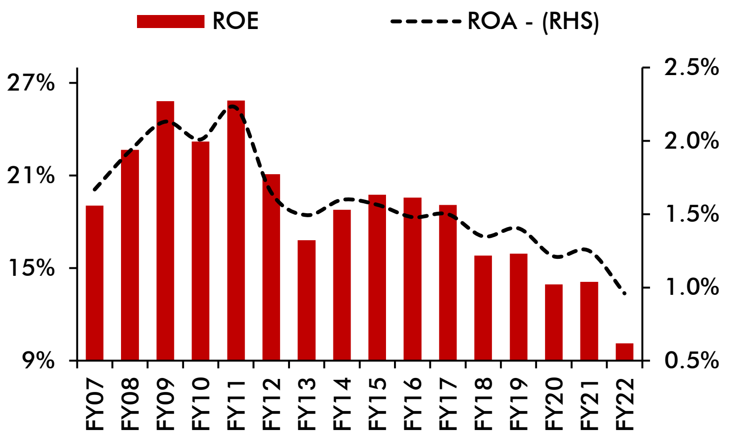
Source: RBI, Ambit Capital research

Exhibit 11: Large banks have become more active in personal loans over the last 2 years



Source: Company, Ambit Capital research, we have considered only PL portfolio of banks

Exhibit 12: LICHF's RoE/RoA have declined too, due to competition



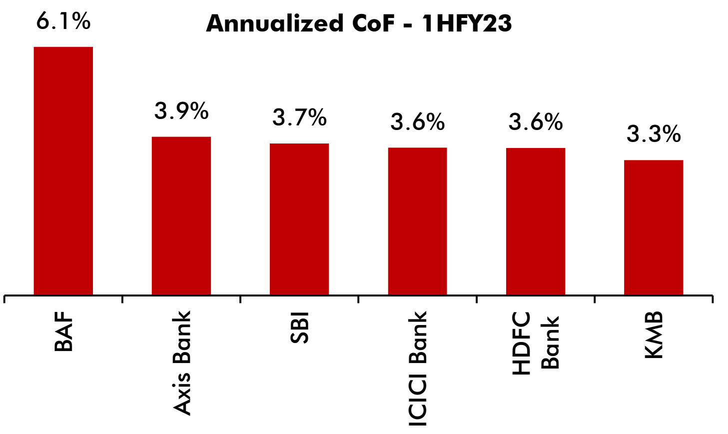
Source: Company, Ambit Capital research

Exhibit 13: Majority of home loans given by banks have <9% yield

Lending Yield	% of home loans
<9%	88%
9%-12%	12%
>13%	0%
8.50%	**100%**

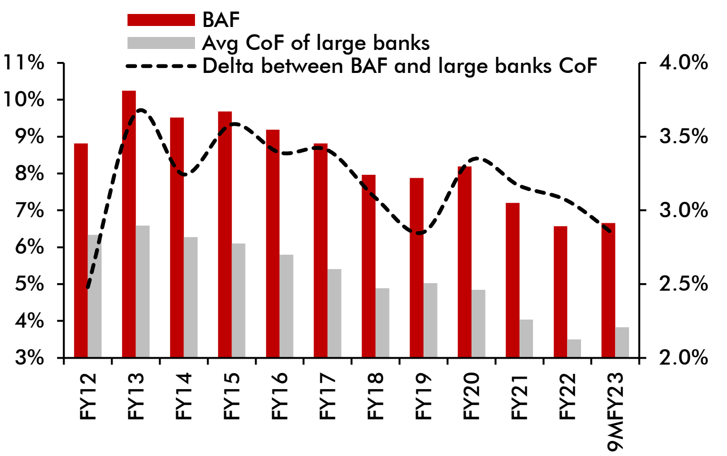
Source: RBI, Ambit Capital research

Exhibit 14: Cost of funds of BAF is high compared to large banks



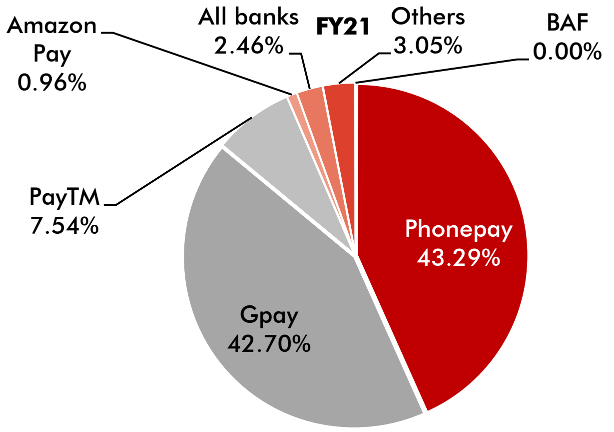
Source: Company, Ambit Capital research

Exhibit 15: BAF cost of funds delta is still the same as it was in FY19 and higher than FY12



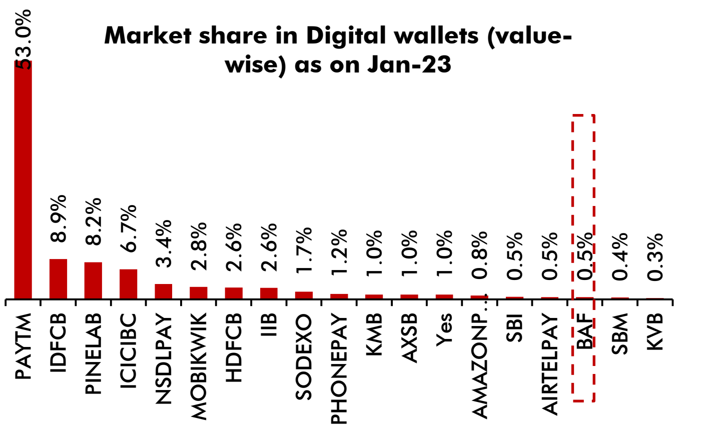
Source: Company, Ambit Capital research, Note: we have considered HDFCB/ICICIBC/AXSB/KMB/SBIN for average of large banks cost of funds.

Exhibit 16: Value-wise BAF's market share in UPI apps was negligible



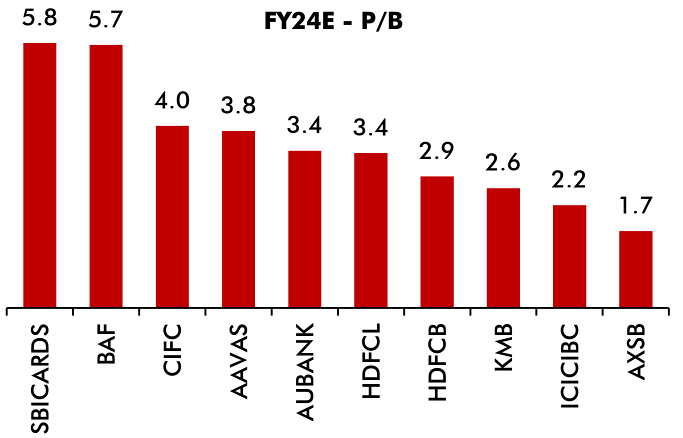
Source: NPCI, Ambit Capital research

Exhibit 17: Even in digital wallets BAF market share is very low



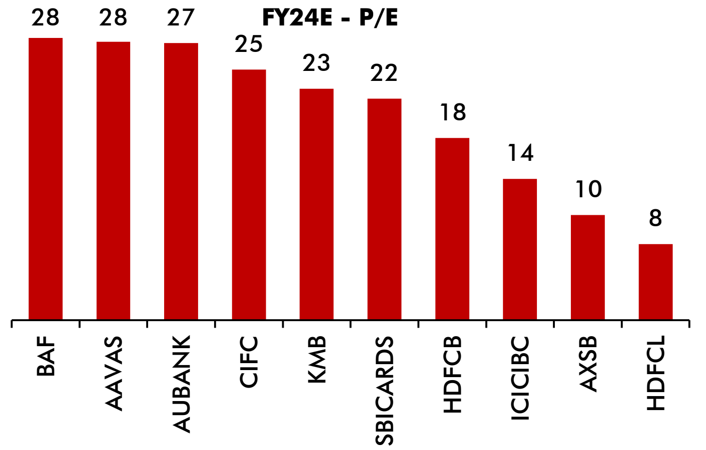
Source: RBI, Ambit Capital research

Exhibit 18: BAF trades at a significant premium on P/B to peers who have higher RoE and growth



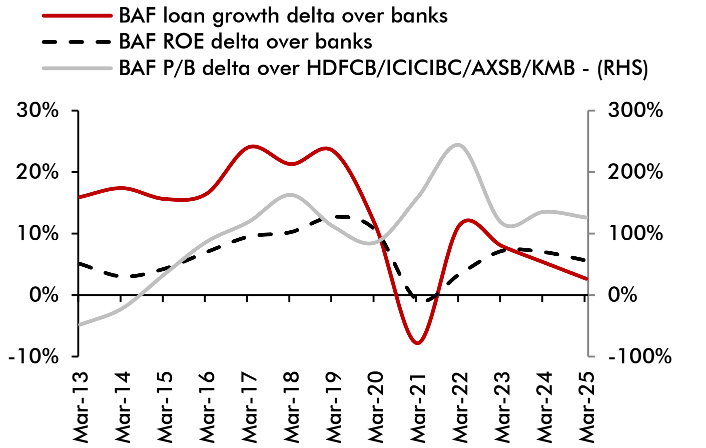
Source: Company, Bloomberg, Ambit Capital research, CMP as on 6th March 2023

Exhibit 19: BAF trades at a significant premium on P/E to peers who have higher RoE and growth



Source: Company, Bloomberg, Ambit Capital research, CMP as on 6th March 2023

Exhibit 20: From trading at a discount to private sector banks, BAF trades at a premium now



Source: Company, Bloomberg, Ambit Capital research

Standing tall

BAF's AUM CAGR has been 40% over the last 13 years with an average RoE of 20%, driving 45% EPS CAGR over this period. BAF has been an outlier in lending business in terms of growing at such a fast pace while maintaining asset quality during this high-growth period. BAF's growth and RoE over the last decade has been almost 2x of private sector banks. Current valuations of 7x/35x trailing BVPS/EPS is highest in the lending business in India and is implying ~25% AUM growth and 20% RoE expectations over the next decade.

BAF has defied the traditional framework which analysts and investors rely on to analyze a lending business. More often than not, any lender who has grown at significantly higher pace than the industry has got into trouble. Bajaj has defied this rule.

Bajaj Finance's loan book CAGR has been 40% over FY09-22. During the same period, BAF's EPS/BVPS/PAT CAGR have been 45%/28%/51%.

Exhibit 21: BAF has achieved extraordinary growth over a decade

	FY09	FY22	CAGR over FY09-22
AUM (Rs bn)	25	1,975	40%
Net profit (Rs mn)	339	70,282	51%
EPS (Rs)	1	116	45%
BVPS (Rs)	30	722	28%

Source: Company, Ambit Capital research

High NIMs and fee income along with controlled credit cost has been the key driver of high RoA/RoE for BAF over the years.

Exhibit 22: High growth along with high RoE over the last decade

Du-pont table	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	9MFY23*
NII	10.2%	15.7%	13.4%	11.1%	10.7%	9.8%	9.2%	9.4%	8.1%	8.8%	9.0%	9.1%	8.0%	8.8%	8.8%
Other income	2.7%	2.8%	1.8%	1.6%	1.2%	1.3%	1.0%	1.0%	2.1%	1.5%	2.0%	2.3%	1.9%	2.2%	2.3%
Total income	**12.8%**	**18.5%**	**15.2%**	**12.7%**	**11.8%**	**11.0%**	**10.2%**	**10.3%**	**10.2%**	**10.3%**	**11.0%**	**11.4%**	**9.9%**	**11.0%**	**11.1%**
Operating expenses	6.5%	8.3%	6.7%	6.0%	5.3%	5.1%	4.6%	4.5%	4.2%	4.1%	3.9%	3.8%	3.3%	3.8%	4.0%
Operating profit	**6.3%**	**10.2%**	**8.5%**	**6.7%**	**6.5%**	**6.0%**	**5.6%**	**5.8%**	**6.0%**	**6.2%**	**7.1%**	**7.6%**	**6.6%**	**7.2%**	**7.2%**
Provision	4.8%	6.7%	3.0%	1.4%	1.1%	1.1%	1.2%	1.3%	1.3%	1.3%	1.4%	2.6%	3.4%	2.4%	1.2%
PBT	**1.5%**	**3.5%**	**5.5%**	**5.4%**	**5.4%**	**4.8%**	**4.4%**	**4.6%**	**4.7%**	**4.9%**	**5.7%**	**4.9%**	**3.2%**	**4.8%**	**6.0%**
Tax	0.5%	1.2%	1.8%	1.7%	1.7%	1.6%	1.5%	1.6%	1.6%	1.7%	2.0%	1.4%	0.9%	1.2%	1.5%
ROA	**1.0%**	**2.3%**	**3.6%**	**3.6%**	**3.7%**	**3.2%**	**2.9%**	**3.0%**	**3.0%**	**3.2%**	**3.7%**	**3.5%**	**2.3%**	**3.5%**	**4.4%**
Leverage	3.2	3.4	5.4	6.6	6.0	6.1	7.1	7.0	7.1	6.2	6.1	5.7	5.0	4.9	5.5
ROE	**3.2%**	**8.0%**	**19.6%**	**23.9%**	**21.9%**	**19.5%**	**20.4%**	**20.9%**	**21.6%**	**19.6%**	**22.5%**	**20.2%**	**11.3%**	**17.4%**	**24.1%**
AUM growth	**2%**	**59%**	**88%**	**73%**	**34%**	**37%**	**35%**	**36%**	**36%**	**37%**	**41%**	**27%**	**4%**	**29%**	**27%**
EPS growth	**63%**	**164%**	**176%**	**59%**	**26%**	**7%**	**24%**	**34%**	**41%**	**31%**	**57%**	**30%**	**-18%**	**59%**	**81%**

*Source: Company, Ambit Capital research, *annualized*

These numbers are baffling in the sense that Indian banking sector CAGR was 12% during the same period with private sector banks CAGR being 18%.

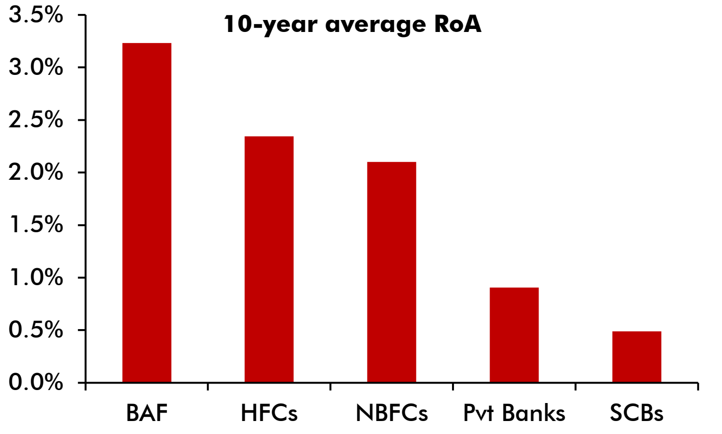
Exhibit 23: Banking sector/Pvt. banks/NBFCs/HFCs grew 12%/18%/20%/21%

Loans/AUM (Rs bn)	FY09	FY22	CAGR over FY09-22
All Banks	28,477	122,587	12%
Pvt Banks	5,191	45,230	18%
NBFCs (Excl. HFCs)*	2,866	26,618	20%
HFCs**	1,532	12,777	21%

*Source: RBI, National Housing Bank (NHB), Ambit Capital research, *NBFCs CAGR over FY09-1HFY22, **HFCs CAGR over FY10-21*

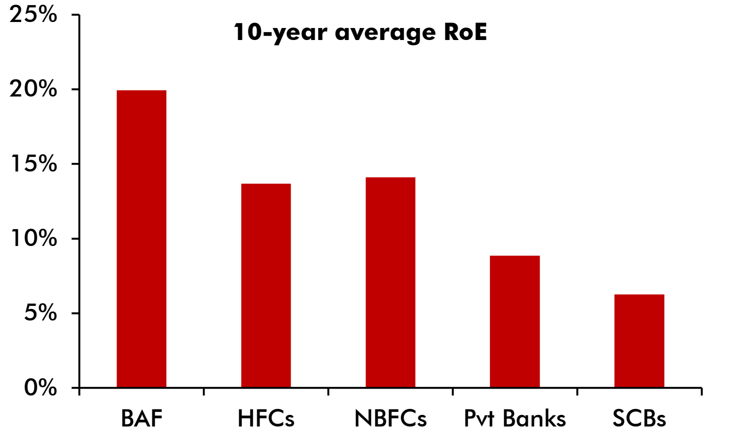
Average RoA/RoE of BAF have been significantly higher compared to banks/HFCs/NBFCs over the last 10 years.

Exhibit 24: 10-year average RoA of BAF/Banks/HFCs/NBFCs



Source: Ace Equity, RBI, Company, Ambit Capital research

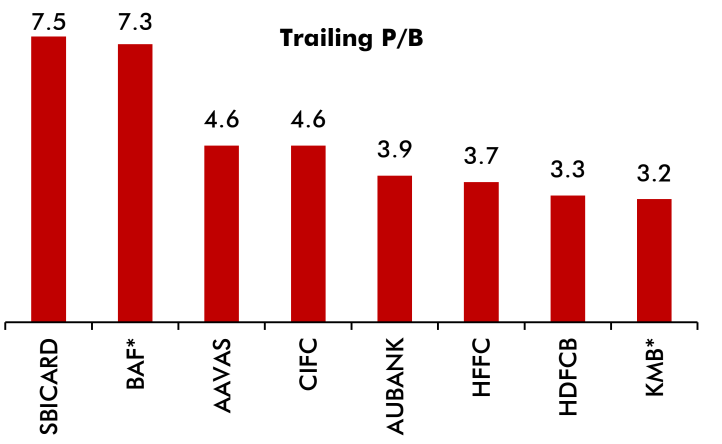
Exhibit 25: 10-year average RoE of BAF/Banks/HFCs/NBFCs



Source: Ace Equity, RBI, Company, Ambit Capital research

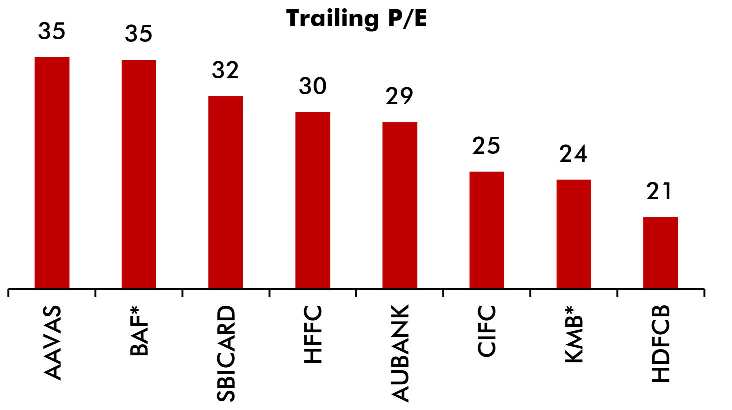
The result of this growth is reflected in Bajaj Finance trading at trailing P/B of 7.3x and trailing 12-month P/E of 35x. This is significantly higher multiple than any other listed financiers. Note that other financiers who are trading at such high multiples are not even 20% size of BAF in terms of AUM.

Exhibit 26: Trading ~1.8 times compares to other high-growth stocks except SBICARD



*Source: Bloomberg, Company, Ambit Capital research, *BAF/KMBs are on consol. Basis, Closing price as on 1st March*

Exhibit 27: Similarly on P/E as well, it is trading ~40% higher than the average



*Source: Bloomberg, Company, Ambit Capital research, *BAF/KMBs are on consol. Basis, Closing price as on 1st March*

Our back-of-the-envelope calculations show that these high valuations are factoring in 25% AUM CAGR and ~20% RoE over the next decade.

What Worked for BAF?

BAF's success has been a function of multiple internal and external factors. In terms of management bandwidth, BAF was able to get services of a Citi Bank veteran Nanoo Pamnani as mentor/director and CEO Rajeev Jain who had extensive hands-on experience of consumer lending in India. BAF has been ahead of peers in employee incentive structure, launching new products (cross-selling personal loans to consumer durable customers), innovation in new products (no pre-payment charges) and early adopter of tech/analytics. Many lenders discontinuing consumer/personal lending post-GFC gave BAF a clear runway to build customer base and scale products like consumer durables/personal loans. Availability of data from credit bureau was a booster for BAF as they were able to leverage their tech/analytics better given availability of data.

Before understanding whether BAF would be able to deliver on future expectations let's first understand what has worked for BAF in the past. Success of any organization is a function of multiple factors and hence it's difficult to pin-point success of a company on few factors. However, with benefit of hindsight, we believe that it was a confluence of many company-specific and macro factors that worked in the favour of BAF.

People, processes, innovation and swiftness

Management bandwidth – combination of strategy and execution

In terms of management bandwidth, BAF was lucky to have services of Citi Bank veteran Nanoo Pamnani who had retired from his services and happen to be a close relative of BAF chairman, Mr. Rahul Bajaj. Mr. Pamnani had deep business insights built over the 4 decades working in different businesses/countries for Citibank. He handpicked Mr. Rajeev Jain as CEO who had worked in consumer finance in GE, AIG and American Express. Global vision and experience of different verticals of Mr. Pamnani and execution skills of Mr. Rajeev Jain were key ingredients for success of Bajaj Finance.

Exhibit 28: A leadership team sharing same vision and mutual admiration

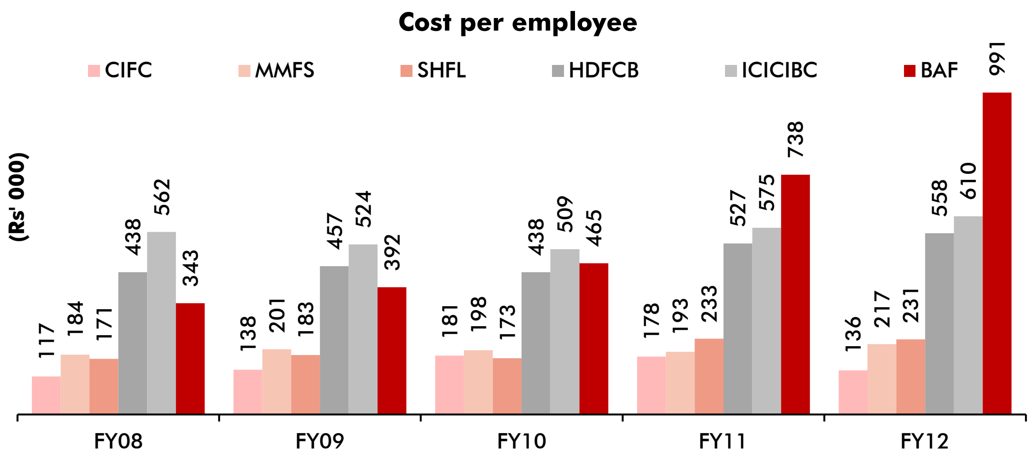
Leadership team comments
▪ "Mr. Pamnani always pushed everyone hard, including Mr. Sanjiv Bajaj and most of all himself. This did not change even in his later years. His dedication and commitment were unbelievable," Mr. Sanjiv Bajaj on Nanoo Pamnani.
▪ "He had a childlike enthusiasm to learn anything new, be it technology or anything" Mr. Rajeev Jain on Nanoo Pamnani.
▪ "Since we had to build from scratch, we went out to hire and we were lucky to get Rajeev Jain. He turned out to be brilliant. He is smart business person with great execution skills. His ability to think broadly is outstanding," Nanoo Pamnani on Rajeev Jain.

Source: Media, Ambit Capital research

Best-in-class HR policies

BAF started its current journey by juggling its HR policies; two key important changes in the initial years were hiring high quality domain specialists and realignment of compensation packages with best in the industry. This is visible in per employee cost going up by 3x between FY08 and FY12, and becoming one of the best in the industry and even higher than private sector banks.

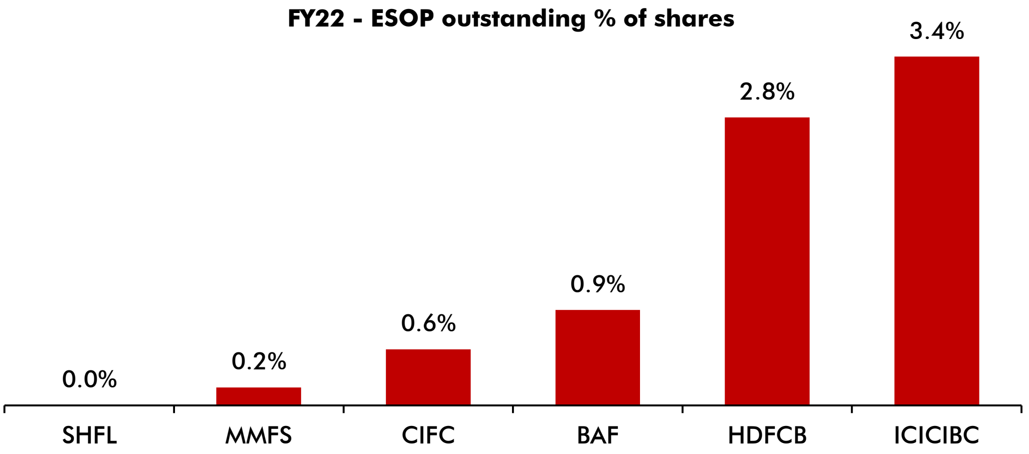
Exhibit 29: BAF heavily invested in skilled and quality people leading to rise in cost per employee



Source: Company, Ambit Capital research

BAF was also one of the earliest NBFCs to introduce ESOPs in FY10 and has a generous ESOP program for employees.

Exhibit 30: BAF ESOP is well below large bank peers of HDFCB/ICICBC



Source: Company, Ambit Capital research

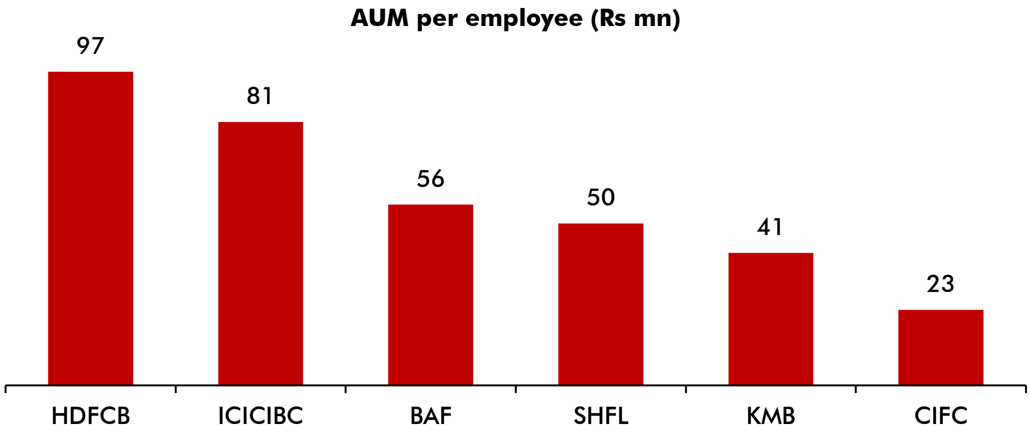
In recent times, the company has come out with some innovative policies to improve engagement with employees:

- A select group of employees (approximately 1%) join the exclusive club of achievers every year. These selected employees and their families are recognized at a company-level function.
- A fortnightly salary policy enables an employee to take salary on fortnightly basis instead of a monthly credit.
- 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.

BAF has been frequently rated as one of the best places to work in surveys like Great places to work and Hewitt best employers.

This is visible in AUM per employee being one of the highest for BAF amongst NBFCs. Banks have higher AUM per employee given that they have higher share of corporate loans where employee intensity is lower.

Exhibit 31: AUM per employee is highest for BAF amongst NBFCs



Source: Company, Ambit Capital research, Note: Net advances in case of banks

Continuous extension of product lines

Non-bank lenders (NBFCs/HFCs) in India have mostly found success in mono line lending businesses. Most successful and sizeable NBFCs/HFCs have built their business by focusing on a single lending segment (or two in some cases), e.g. HDFC Ltd (Home loans), LIC Housing (Home loans), Cholamandalam (auto loans), Shriram Transport (used commercial vehicles), and Muthoot Finance (gold loans).

In this regard, Bajaj Finance has been a unique institution. It has evolved from captive auto financier to diversified non-bank lender. Over the last 15 years, the company has expanded into various segments of consumer lending and commercial lending. In consumer loans, it has expanded into consumer durable loans, personal loans, co-branded cards, rural finance, etc. In commercial lending, the company expanded into secured and unsecured SME loans, loan against securities, vendor financing, construction financing, etc.

Exhibit 32: Periodic product launches helped BAF scale up its loan book

Year	Product launched
FY08	Launched IPO Financing, Personal loans cross sells (PLSL) to existing customers and loans to SMEs for personal computers.
FY09	Small business loans (SBL) upto Rs0.3mn to Rs3mn to self-employed segment. Launched loan against properties (LAP) and loan against securities (LAS) to high net worth individuals (HNIs).
FY10	Launched vendor financing of large manufacturers.
FY11	Launched home loans for affluent and HNI self-employed customers, construction financing for small- and mid-contractors. Started Infra financing and co-lending with Central Bank of India.
FY12	Launched salaried loans to affluent customers and co-branded cards. Small business loans extended to doctors. Within infra financing, the company started offering project finance, corporate finance and mezzanine financing. Launched "Flexisaver product for SME" customers. Also, vendor financing product extended to auto manufacturers.
FY13	Extended product line of consumer durables by launching lifestyle product financing and EMI cards (Existing Member Identification Card)" to finance consumer durable products. BAF has also launched "Kisan Mitra" product for farmers where repayments are synchronized to realization of crops.
FY14	Started focusing on digital products financing. Launched rural lending where company offers consumer durable loans/gold loans/refinance/fixed deposit to relatively better rural customers. Introduced "Wealth Management business" through fixed deposits offered to HNIs.
FY16	Launched "e-commerce finance product offering financing to sellers" to registered sellers on Flipkart/snapdeals. Also, launched "developer financing" to diversify its mortgage book. Launched "Micro MSME loan as part of rural lending".
FY18	Extended unsecured professional loans to doctors, CAs and engineers.
FY20	Started medical equipment financing business by entering tie-ups with top-tier medical equipment manufacturers and their dealers.
FY22	Extended two-wheeler financing across all manufacturers.
FY23	Planning to get into microfinance, tractor loans, gold loans.

Source: Company Annul reports, Ambit Capital research

Multiple products helped the company continue to grow at a high pace despite slowdown in some product and/or increased competitive intensity in a product.

Innovation in existing products

Lending is a commodity akin business and hence product differentiation is difficult in this category. However, BAF has been successful in introducing new features in existing products to gain market share from competitors.

Exhibit 33: Innovations in existing product

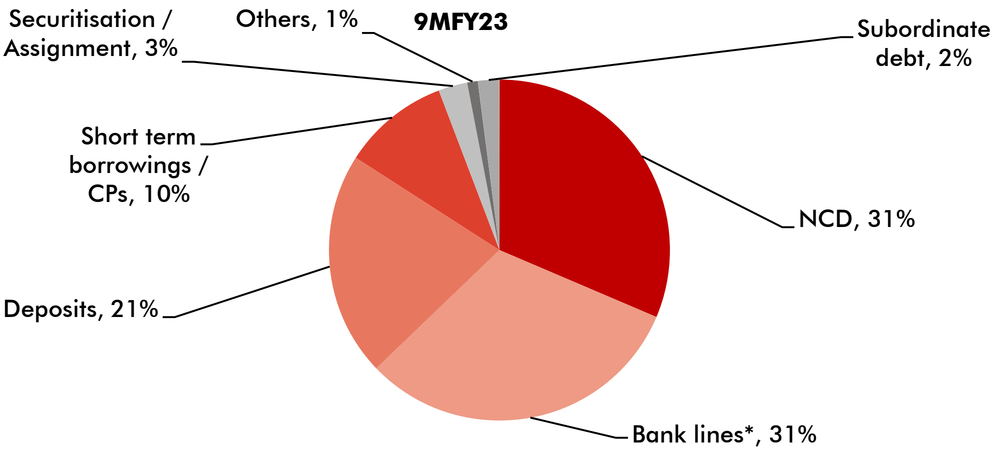
Product	Innovation in existing products
EMI cards	Giving pre-approved limits to existing good quality customers in the form of EMI cards. This helped in repeat purchases and stickiness of customers.
SME loans	Flexi payment and withdrawal in SME loans given unpredictable nature of cash flows for SME customers.
LAP	No pre-payment charges in LAP.

Source: Company Annul reports, Ambit Capital research

A prudent and long-term approach in building liabilities

NBFCs/HFCs mostly depend on wholesale borrowings from banks or corporate bond market for their funding. In times of liquidity crunch, getting liabilities could be difficult for an NBFC/HFC. We saw many reputed HFCs/NBFCs struggling for funds post IL&FS crisis in 2018. BAF has built its liability side, keeping in mind the challenges HFCs/NBFCs face on garnering liabilities.

Exhibit 34: BAFs well diversified funding mix



*Source: Company, Ambit Capital research, *Bank lines includes CC/ODWCDL*

BAF's excellent management of its liabilities side visible in few examples:

Exhibit 35: BAF's liabilities management skill

Built liability/deposit base

- Always having asset duration higher than liabilities duration to avoid liquidity crunch during times of liquidity tightening.
- Avoiding overdependence on cheap short-term commercial papers during FY16-18 which led to downfall of many NBFCs/HFCs.
- Building a strong retail deposit base despite public deposits being expensive in nature.
- Set up asset-liability committee (ALCO) to define strategies/guidelines to manage ALM. This committee forms strategies, such as entering into strategic partnership with banks and assign long tenor receivables.
- Maintains liquidity desk to reduce liquidity risk.

Source: Company Annul reports, Ambit Capital research

Early to adopt technology and analytics

Technology and analytics are buzz words now where all banks/NBFCs management are focusing on this aspect of business. Bajaj Finance saw potential of tech/analytics much earlier than the industry and continues to be an innovator in this space. Some examples are:

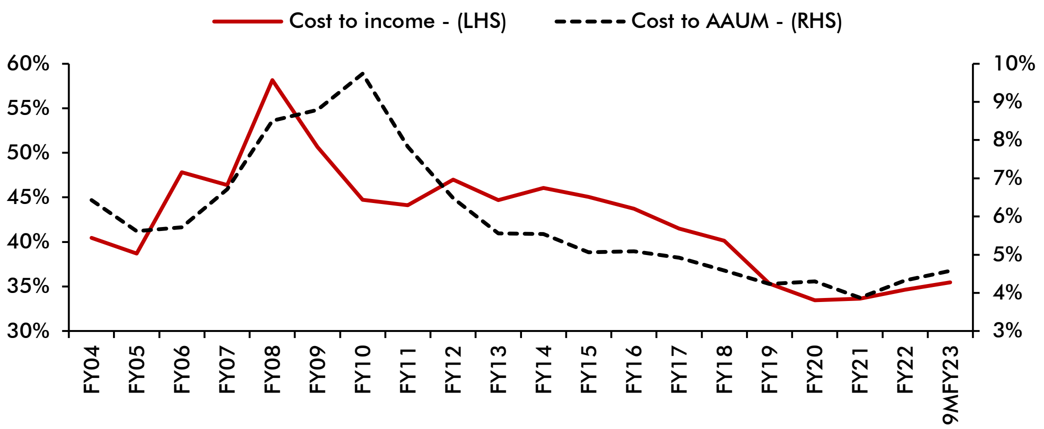
Exhibit 36: BAF's tech initiatives/improvements

Year	Tech improvement/enhancement
FY08	Restructuring credit operations model by enlisting credit bureaus and dedicated analytics team as early as 2008.
FY09	Implemented a fully integrated lending platform in 2009 which offered end-to-end business process integration web-based interface. This helped streamlining processing, lowered unit cost and minimized operational risk.
FY11	Implemented a new CRM for data mining and thus better generation capability.
FY14	First NBFC to tie up with UIDAI to access E-KYC customer database. Invested in a leading global customer experience technology platform which provided customers multi-channel options across call centers, IVR, online portal, branch and mobile app.
FY16	Launched digital underwriting for unsecured business loans to remove subjectivity. This also reduced processing costs significantly and improved volumes.
FY17	Built predictive models like propensity to purchase, application scorecard, behavioural scorecard, collection scorecard, fraud scorecard. Built real-time machine learning based fraud analytics model to detect frauds.
FY18	Multiple proofs of concept using machine learning for cross-sell and fraud detection. Invested in a cloud-based Enterprise Data Warehouse (EDW).
FY19	Invested in internal learning facility called school of analytics.
FY20	Hired 100 data science and tech graduates from IITs and premier institutes. Tech innovation and collaboration centre (TICC).
FY22	Has built 600+ APIs to more robust micro services based technology infrastructure to ensure minimal latency.

Source: Company Annul reports, Ambit Capital research

The company has incurred more than Rs12.5bn cost on information technology in the last 6 years with ~35% CAGR in IT spends during this period. BAF was an early mover to transform its physical processes to digital processes. The impact of all these tech investments is visible in significant improvement in cost-to-income and cost-to-asset ratios.

Exhibit 37: Cost-to-income and cost-to-AUM trending lower



Source: Company, Ambit Capital research, AAUM means average AUM

Internal control and systems

Internal control and systems are key to successful lending operations. Few examples of how BAF has invested in internal control and systems:

Exhibit 38: Examples of changes made to improve internal control system

Changes done to improve internal control system
▪ Set up an independent internal management assurance/control function. This function has strengthened its internal audit function.
▪ Hired domain specialists to increase effectiveness of the system. BAF has defined 5,000+ KPIs that it monitors across various business and functions regularly to enhance effectiveness of internal process, control and systems.
▪ Dedicated compliance team separately to review and audit processes.
▪ Separation of chief risk officer (CRO) and chief credit officer to strengthen risk management.
▪ 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.

Source: Company Annul reports, Ambit Capital research

Multi–channel distribution strength

BAF has focused on creating a physical as well as digital distribution channel which has helped the company to grow at such a fast pace:

Exhibit 39: Focus on increasing channel strength plays crucial role

Physical channel	Digital channel
▪ Presence across ~3,685 locations. Also, it has active distribution network of over 143k, comprising digital network of 31.4k and rest are physical stores, dealers and DSA.	▪ Invested and expanded its presence in web search ecosystem thereby laying a strong foundation for strong web traffic over the medium term.
▪ Opened 50 financial inclusion branches in rural and backward areas in FY22 and has plans to expand to 50 more in next one year.	▪ Migrated to integrated marketing cloud and customer data platform for digital marketing and sales campaigns.
▪ Migrated its Pune-based centralized call centre infrastructure to eight regional call centres to deliver multi-lingual sales and service support to its customers.	▪ Has built its own self-service chat BOT across website, portal, mobile app and the wallet to provide support to customers.
▪ Opened dedicated collections service desk across the top-10 branches to address collection related queries of walk-in customers.	▪ Expanded into payments channel – Launched its own wallet called 'Bajaj Pay,' which offers payment options via UPI, EMI card, or credit card. BAF is in process of creating a 'Bajaj Pay' payments solution for its over 120K merchant partners.
▪ Set up its own centralised call monitoring infrastructure for its outsourced collection agency network. All agencies are mandated to make collection calls only through this infrastructure. Thus, all collections are getting recorded and monitored periodically to ensure compliance of collection code of conduct.	▪ Has built "Sales One App" and "Debt Management One App" to provide a single gateway to customers/employees for online and offline transactions.
	▪ Has developed four proprietary marketplaces, such as (i) EMI store, (ii) Insurance marketplace, (iii) Investment marketplace, and (iv) Broking app.

Source: Company Annul reports, Ambit Capital research

Early detection in problem segments and cut losses

BAF was early to identify stress early in certain segments and hence slowdown growth or exit from certain businesses:

Exhibit 40: Cutting down exposure early in stressed segments

Changes done to improve internal control system
▪ Took prudent decisions to reduce the incremental/existing exposure in Construction Equipment (CE) finance business as portfolio showed sign of stress in FY13.
▪ Similarly, selective/cautious in infra financing in FY13 due to multiple factors affecting the growth in this sector, such as high leverage in infra companies, lack of PE interest and high interest rates, etc.
▪ Discontinued its rural MSME financing in FY18 business segment due to high delinquencies.
▪ Exited from warehouse receipt financing business in FY20 due to stress in agrarian sector and lack of sustainable profit model.

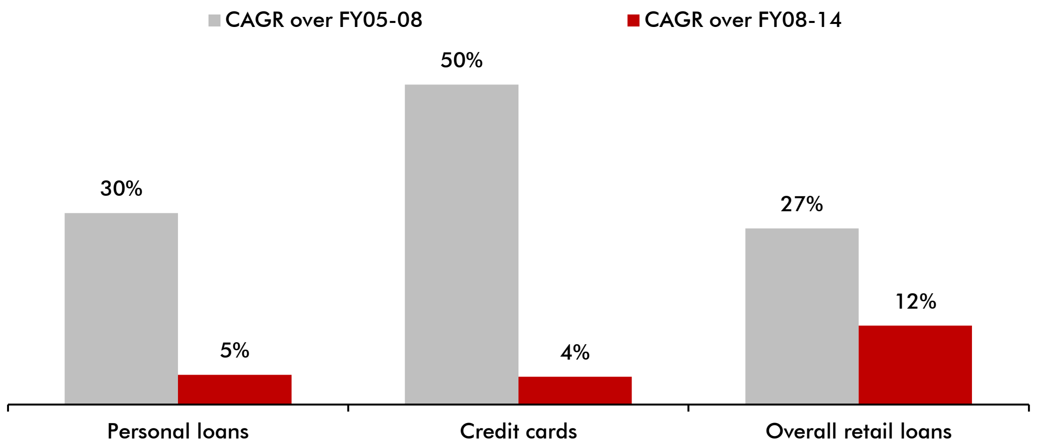
Source: Company Annul reports, Ambit Capital research

Benign competition and advent of credit bureaus

Exit of many players from retail post-2008

Retail loans including personal loans grew at a rapid pace of 27% CAGR over FY05-08 in India. However, asset quality significantly deteriorated from FY09, leading to many lenders (ICICI, Cholamandalam, Reliance Capital, etc.) vacating or significantly slowing down growth in this segment. This is visible in retail loan growth significantly slowing down in India over FY08-14.

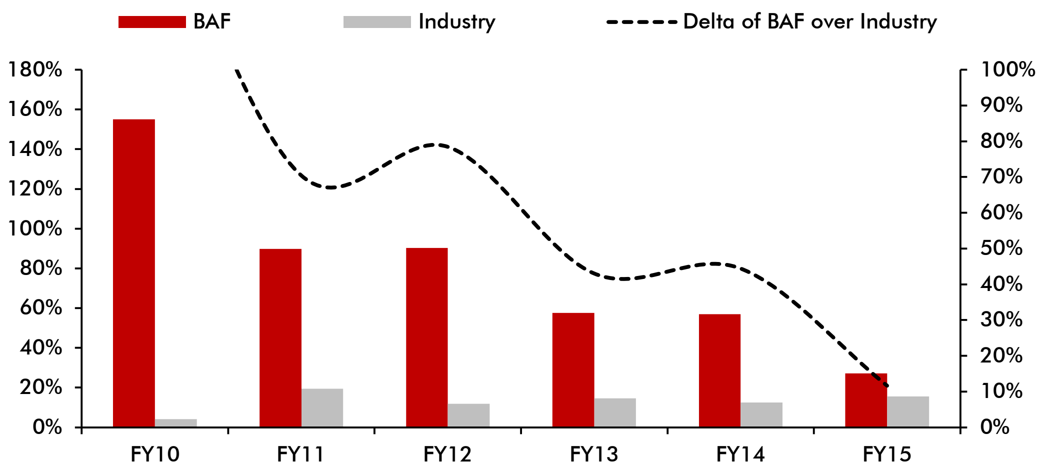
Exhibit 41: Retail loan growth slowed post-GFC in FY08-14



Source: RBI sectoral credit data, Ambit Capital research

BAF used this opportunity to establish itself in categories like consumer durable financing, unsecured loans and home equity (LAP) loans.

Exhibit 42: BAF grew its PL/Mortgage book leading to higher delta in initial years



Source: Company, RBI, Ambit Capital research, Note: BAF loan book includes (B2C/PL) and Mortgage loans, we have considered RBI's Personal loan book growth as a proxy to industry credit for comparison

Credit bureaus opening up possibility of data analytics

India had no credit bureau till FY00 and first credit bureau came into existence in FY04. Initially, only banks were required to submit the data with bureau, but NBFCs were also made to submit data from FY14. BAF extensively used credit bureau data and its own analytics to enhance risk assessment models which provided an edge to BAF over other NBFCs peers.

Moderation in growth due to size/competition

There is no example of any Indian bank/NBFC/HFC growing >20% CAGR for 2 decades. Most of the companies which grew at such a rapid struggled with asset quality issues in the subsequent years (e.g. ICICI, Yes, Bandhan, RBL, PNB HF) and/or saw growth tapering off after some years (e.g., HDFC twins, gold loan NBFCs). BAF already has ~23%/45% market share amongst NFBCs in commercial loans/personal loans. Data suggests increasing competition from banks in these segment and a bigger part of the market being at lower yields vs current yields of BAF. Growth in home loans would come at lower RoA/RoE. Products like consumer durables, 2/3-wheelers and new segments like gold loans and microfinance are unlikely add to overall growth due to smaller size, fragmented nature, low RoE and high entry barriers. Hence, growth should moderate for BAF to ~20% (vs historical growth rate of >30%).

As discussed in the previous section, BAF witnessed 40% CAGR over the last decade and priced in for ~25% CAGR in AUM over the next decade along with high RoE. Investors' belief on BAF's ability to deliver these numbers is based on its historical performance. However, history shows that there is not a single example in Indian financial history where a lender has been able to grow at >20% for more than two decades along with managing high RoA/RoE.

Many lenders (E.g. ICICI Bank, M&M Finance, etc.) which grew at such high pace faced asset quality challenges subsequently.

Exhibit 43: Assets quality issues emerged post high growth period for many lenders

	Period	Loan/AUM growth CAGR in high growth period	Post high growth – Loan/AUM growth CAGR till FY22	Outcome
ICICI Bank	FY03-08	33%	10%	▪ After a high growth period of FY03-08, ICICI Bank (ICICIBC) faced assets quality challenges in its retail loan book during FY09/10/11. Its GNPA shot up to 4.3%/5.1%/4.5% in FY09/10/11 vs average of 2.3% during FY06-08. This has led to decline in RoE to 8.5% in FY09-11 vs ~16% average RoE of FY03-08.
RBL Bank	FY10-19	53%	3%	▪ RBL Bank has grown its loan book at 53% CAGR during FY10-19. However, post this, credit cost averaged ~410bps over FY20-22, leading to average RoE of just 3.1% over FY20-22.
Bandhan Bank	FY10-21	45%	15%	▪ Post Covid-19, ~45%-54% of microfinance loans turned stressed leading to average RoE of just ~5% during FY22-FY23YTD vs average RoE of 22.4% during FY18-20. Loan growth has slowed to ~15% CAGR over FY21-FY23YTD.
M&M Finance	FY09-14	32%	8%	▪ Asset quality worsened post-FY14 with average GNPA over FY15-22 is 7.4% vs 4.9% during FY09-14, leading to average RoE of just 9% during FY15-1HFY23 vs average RoE of 20.75 during FY09-14.
Yes Bank	FY05-18	54%	-3%	▪ Yes Bank's dream run ended with first-ever higher slippages in FY18. Post this, GNPA increased to 3.2%/16.8%/15.4% in FY19/FY20/FY21 and credit cost averaged ~620bps over FY19-22 leading to negative to negligible returns.

Source: Company, Ambit Capital research

In cases where asset quality did not deteriorate, growth fizzled out after some time.

Exhibit 44: For some players, large market share became a growth constraint

	Period	Loan/AUM CAGR	Loan/AUM CAGR post high growth period	Growth trajectory post high growth period
Manappuram Finance	FY06-12	110%	10%	▪ Growth moderated to 10% CAGR over FY12-FY22 despite Mannapuram entering into new segments due to regulatory changes on LTV in gold loans, cap on banks' exposure to gold loan companies and tougher KYC norms and gold loan industry growth slowing down.
Muthoot Finance	FY06-12	78%	9%	▪ Growth moderated to 9% CAGR over FY12-FY22 despite Muthoot entering into new segments due to regulatory changes on LTV in gold loans, cap on banks' exposure to gold loan companies and tougher KYC norms and gold loan industry growth slowing down.
Shriram Transport	FY06-11	37%	12%	▪ Growth moderated to 12% CAGR over FY11-22 despite SHTF entering into new segments due to SHTF's high market share in used vehicles, slowdown in used CV industry growth and increased competition in the segment.
HDFC Bank	FY01-16	37%	19%	▪ Growth moderated to 19% CAGR over FY16-22 despite relatively benign competition due to sector growth slowing down.
HDFC Ltd	FY05-13	24%	15%	▪ Growth fizzled out to 15% CAGR over FY13-22 as competition from the banks increased in the segment.

Source: Company, Ambit Capital research

The most pertinent example in that case would be of HDFC Ltd, arguably the most successful non-bank lender in India over the last 3 decades. HDFC grew at ~24% CAGR over FY05-13 with RoA of >2% and average RoE of ~25%. However, with increased competition from banks, over the last 8 years, loan growth has slowed down to 15% with RoA/RoE falling ~1.5%/15%.

Hence, BAF maintaining >25% AUM CAGR over the next decade and that too while managing NIMs and asset quality is a stretched assumption in our view. BAF already has >20% market share amongst NBFCs in its core lending with increased competition from banks in these segments. BAF has relatively low market share in home loans, but home loans are ~1.1%-1.3% RoA and 11%-13% RoE business for HFCs/NBFCs and hence any growth in this segment would be RoA/RoE dilutive for BAF.

Exhibit 45: High market share amongst NFBCs in MSME and personal loans

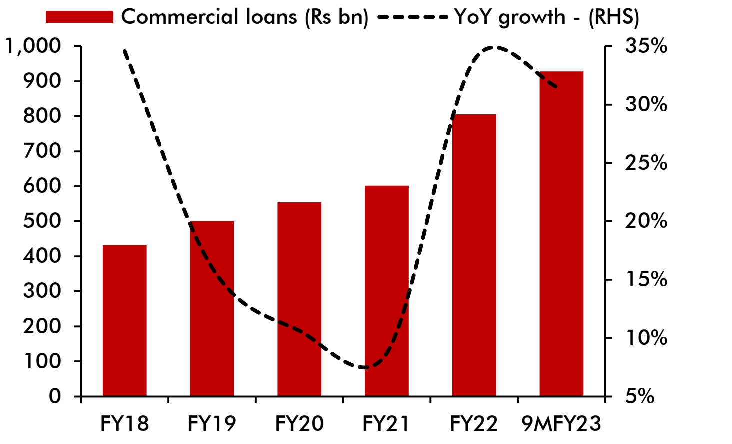
Product	% of AUM	Overall Market share	Market share in non-banks (5)	Future challenges in growth and Profitability
MSME/LAP/Commercial lending/ Business loans	~40%	~3%	~23%	▪ BAF operates in this segment through MSME loans, LAP, LAS and commercial lending. ▪ Increasing competition from banks and other NBFCS due to higher yields and better ability to underwrite these loans due to GST and other alternate data.
Personal Loans/rural loans	~30%	~7%	~45%	▪ BAF is a market leader in NBFCs. Banks are increasingly becoming more active in prime segment which should push NBFCs like BAF to riskier below-prime segment.
Home loans	~17%	~1.3%	~4%	▪ BAF's market share is low so growth opportunity is higher in this segment. However, because of aggression from the banks over the last decade, HFCs are finding it difficult to make more than ~1.1%-1.3% RoA and ~10%-12% RoE in this segment. Hence, growth in this segment would be RoA/RoE dilutive.
Consumer durable finance	~7%	~40%	~55%	▪ BAF is already a market leader in a relatively small category. Non-scalable due to shorter tenure of loans, increasing competition from credit card EMIs and other players, sales shifting to digital taking away benefit of physical reach.
2/3-wheeler financing	~5%	~13%	~20%	▪ Captive auto finance which has been mostly red in the past. Entry barriers are highest in this segment and rival OEMs might not entertain captive financier of a competitor due to fear of losing customers.

*Source: Company, Ambit Capital research, *For MSME/LAP/BL, we have considered BAF's commercial lending, SME lending, Securities lending and mortgage book excl. home loans portfolio; for personal loans, we have considered urban B2C consumer financing and Rural finance (including B2B/B2C); for home loans, we have considered Bajaj housing's home loan portfolio; for 2/3-wheeler financing, we considered auto portfolio of BAF.*

SME/business/commercial loans – competition is increasing from banks

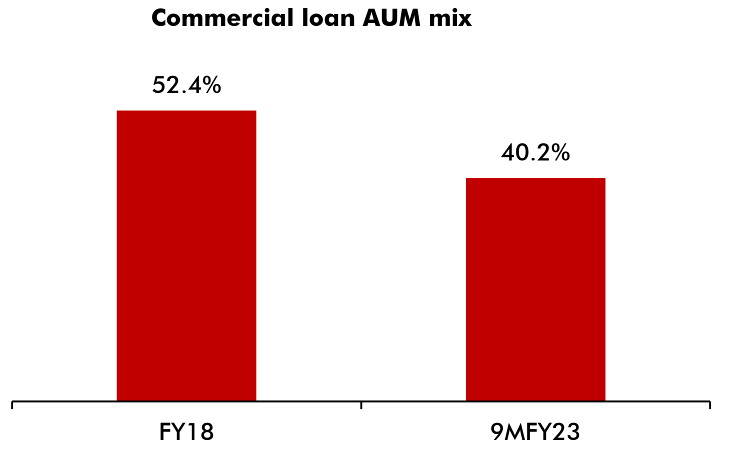
BAF operates in this segment through products like loan against property (LAP), loan against shares, unsecured SME loans and working capital/term loans to large SMEs/mid-corporates. This loan portfolio stands at ~Rs930bn and has grown at 17% CAGR over FY18 to FY23YTD.

Exhibit 46: Commercial portfolio growth led by SME and commercial lending…



Source: Company, Ambit Capital research, Note: commercial book comprises of commercial lending, SME lending, Securities lending and mortgage book excl. home loans

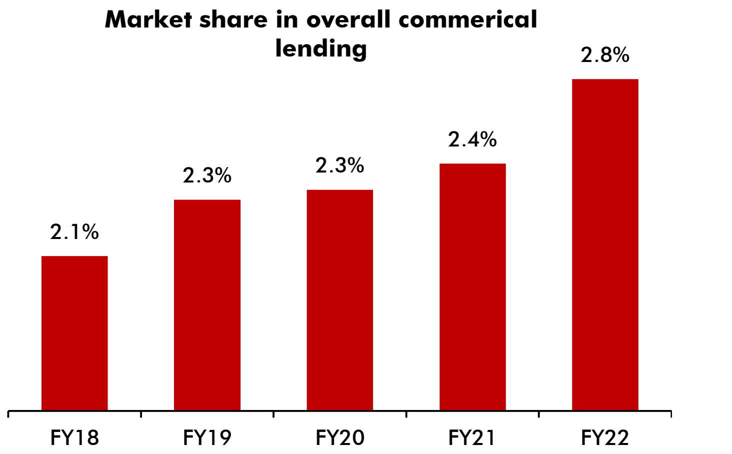
Exhibit 47: …however, total commercial mix in AUM has declined



Source: Company, Ambit Capital research

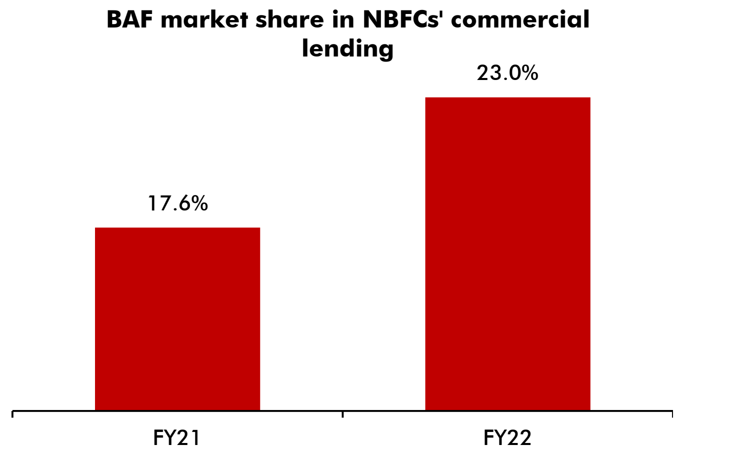
Based on data from credit bureaus CIBIL and CRIF, our back-of-the-envelope calculations show that though market share of BAF in this segment is ~2.8%, amongst NBFCs, its market share is ~23%.

Exhibit 48: BAF market share in overall commercial lending is increasing steadily but still low…



Source: Company, TransUnion CIBIL, CRIF High Mark, Ambit Capital research, Note: Industry benchmark for commercial book comprises of business loans, Micro/SME/MSME loans of Rs1mn to Rs500mn.We have considered LAP, LAS, MSME and commercial loans in BAF commercial loan portfolio

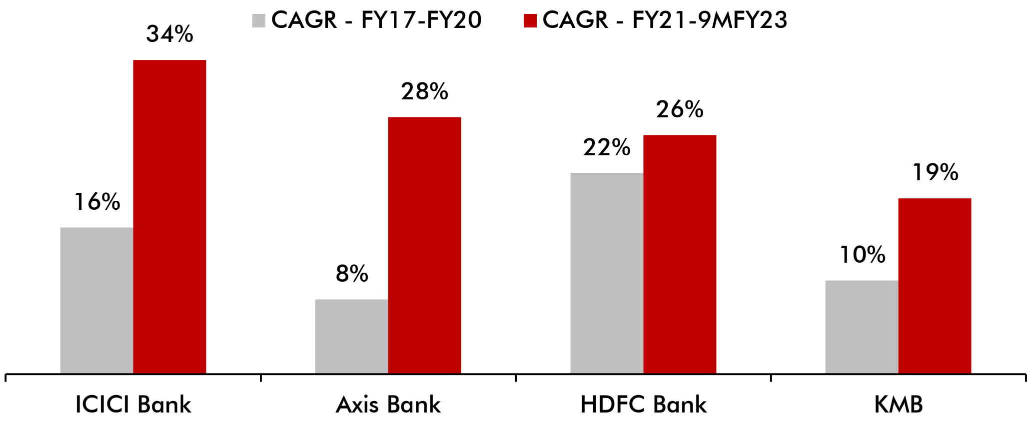
Exhibit 49: …but it is already substantial among NBFCs



Source: Company, TransUnion CIBIL, CRIF High Mark, Ambit Capital research, Note: Industry benchmark for commercial book comprises of business loans, Micro/SME/MSME loans of Rs1mn to Rs500mn. We have considered LAP, LAS, MSME and commercial loans in BAF commercial loan portfolio

In recent times, banks have become quite active in this segment due to higher yields and better ability to underwrite these loans due to GST and other alternate data. This is visible in growth in SME/business banking portfolio of all major banks.

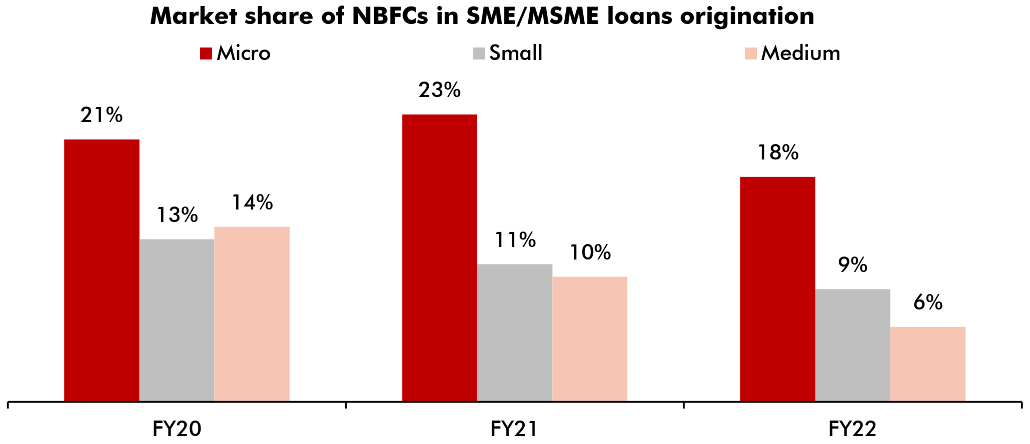
Exhibit 50: Banks have increased their focused on business banking and commercial banking portfolio



Source: Company, Ambit Capital research, Note: HDFC Bank book consists of emerging corporates and business banking portfolio, ICICI Bank book consists of SME and business banking portfolio, Axis Bank book consists of SME and business loans and KMB book consists of consumer bank (WC) portfolio and business banking portfolio.

The increased competition is also visible in share of NBFCs coming down in all sub-categories of MSME segment disbursement.

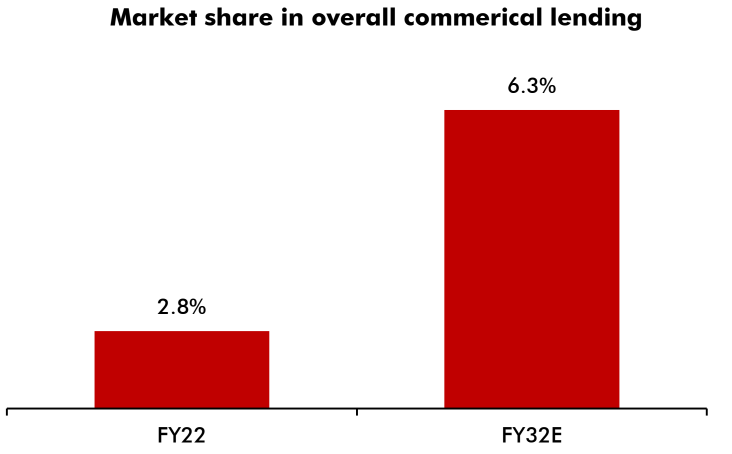
Exhibit 51: NBFCs' market share in all sub-segment of MSME disbursements has declined



Source: TransUnion CIBIL, Ambit Capital research

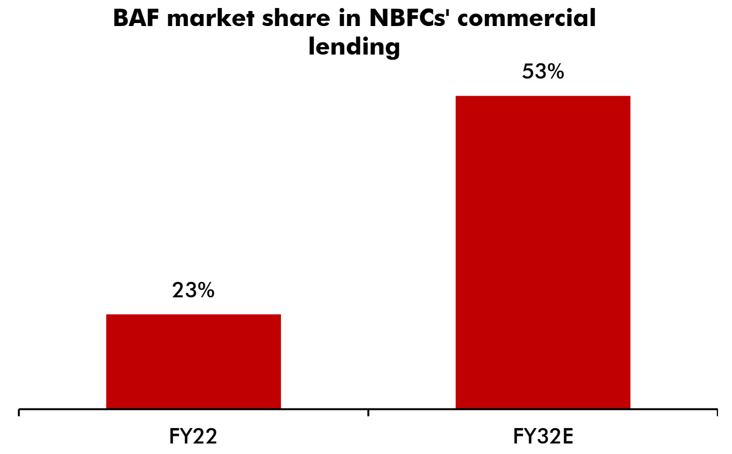
If we assume 25% growth for BAF in this portfolio (which is expected growth rate) with assuming industry CAGR of 15% and stable market share for NBFCs, BAF's market share amongst NBFCs/sector would have to increase to ~53%/~6% in the next 10 years.

Exhibit 52: BAF market share in commercial lending would have to be >6% if we assume 25% CAGR



Source: Company, TransUnion CIBIL, CRIF High Mark, Ambit Capital research, Note: We assumed BAF commercial book growth rate ~25% and industry growth rate ~15% to arrive at estimated market share in FY32

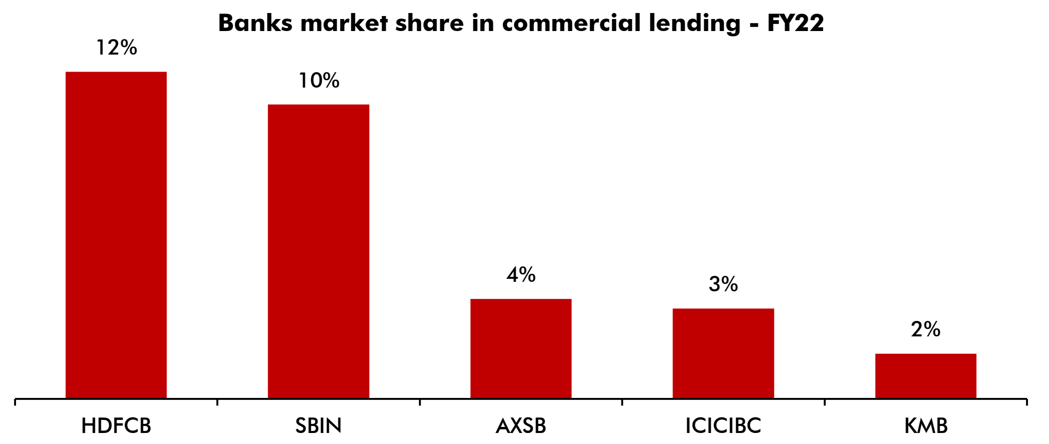
Exhibit 53: ...and >50% within NBFCs which looks unlikely



Source: Company, TransUnion CIBIL, CRIF High Mark, Ambit Capital research, Note: We assumed BAF commercial book growth rate ~25% and industry growth rate ~15% to arrive at estimated market share in FY32

Compared to that, large-cap private sector banks have less than <15% market share in this segment despite their size, reach and cost of funding advantage.

Exhibit 54: Most large banks command less than 5% market share in commercial lending except HDFCB/SBIN



Source: Company, CRIF High Mark, TransUnion CIBIL, Ambit Capital research, Note: HDFC Bank book consists of emerging corporates and business banking portfolio, ICICI Bank book consists of SME and business banking portfolio, Axis Bank book consists of SME and business loans and KMB book consists of consumer bank (WC) portfolio and business banking portfolio.

Considering that banks are also focusing on this segment, we expect growth to slowdown in this segment for BAF going forward. Moreover, incrementally BAF would have to move into higher ticket size loans to scale up its loan book. In fact, BAF is talking about scaling its commercial lending business going forward. However, data shows that yields decline as ticket sizes increases in MSME lending. Hence, we believe incremental growth for BAF in this segment would come at lower yield. In fact, weighted average loan yield for banks on commercial loans between Rs100mn and Rs250mn category is only 8.5% with only 5% of the loans in this category being at more than 13% yield.

Exhibit 55: Only 5% of MSME loans given by banks have >13% yield

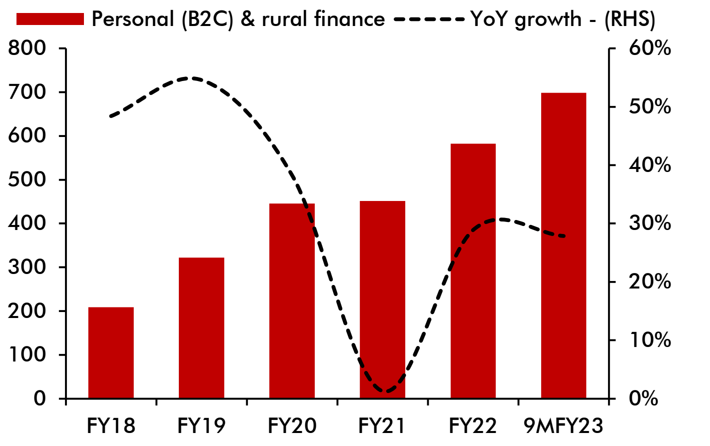
Lending Yield	100-250mn SME Loans
<9%	69%
9%-13%	26%
>13%	5%
8.50%	**100%**

Source: RBI, Ambit Capital research,

Personal loans – market share already high within NBFCs

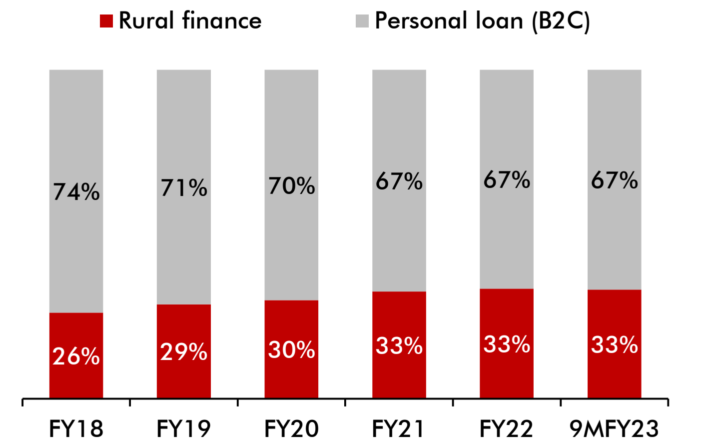
BAF operates in this segment by offering personal loans to its consumer durable financing customers, personal loans to salaried employees and professionals. BAF is now also expanding its personal loan business in rural areas. This loan portfolio stands at ~Rs700bn and has grown at ~30% over FY18-FY23YTD (CAGR).

Exhibit 56: Growth in urban B2C/rural finance has been on a downward trajectory…



Source: Company, Ambit Capital research, Note: rural finance consist of rural B2B and B2C

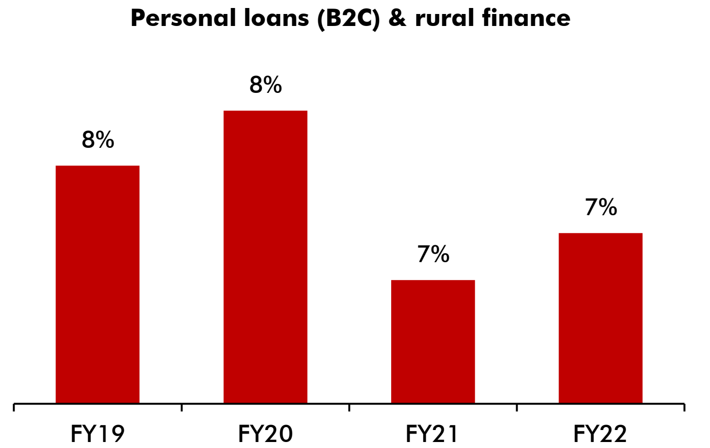
Exhibit 57: …along with slowing growth in personal loans likely due to higher competition



Source: Company, Ambit Capital research, Note: rural finance consist of rural B2B and B2C

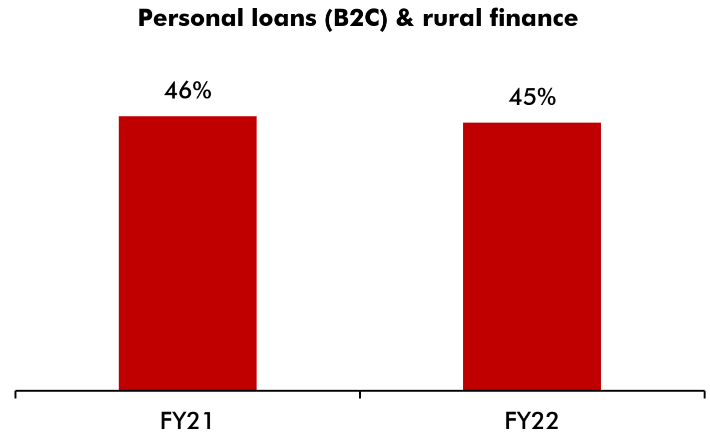
Based on data from credit bureaus, CIBIL and CRIF, our back-of-the-envelope calculations show that though market share of BAF in this segment is ~7%, amongst NBFCs, its market share is ~45%.

Exhibit 58: BAF's overall market share in personal loan had been ~7%-8%



Source: Company, CRIF High Mark, Ambit Capital research, Note: We have considered BAF's Urban B2C and rural portfolio for market share in personal loan

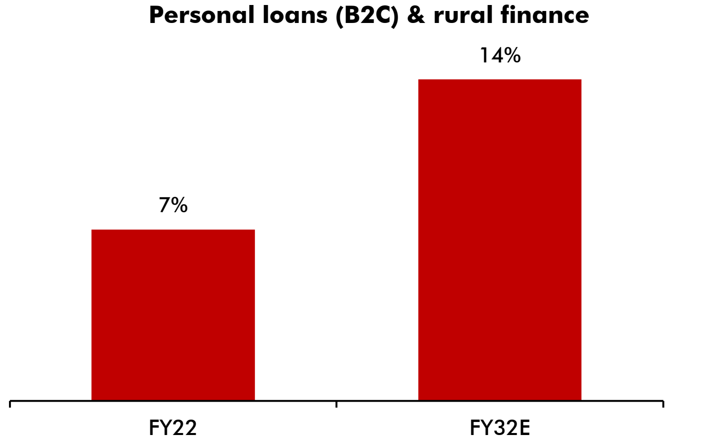
Exhibit 59: Within NBFC space, BAF market share is broadly stable



Source: Company, CRIF High Mark, Ambit Capital research, Note: We have considered BAF's Urban B2C and rural portfolio for market share in NBFCs personal loan

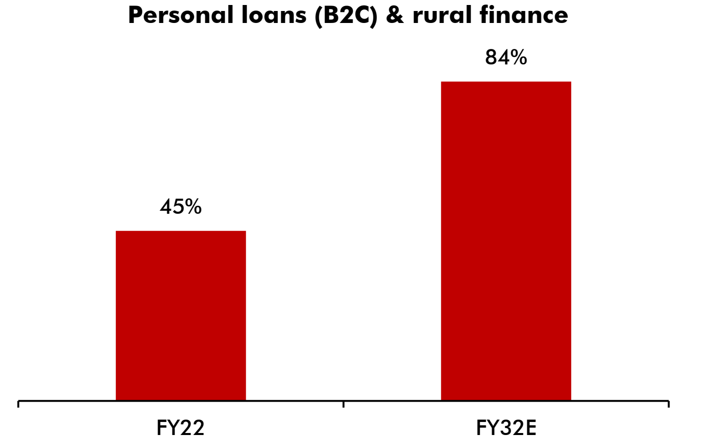
If we assume 25% growth for BAF in this portfolio (which is expected growth rate) with assuming industry CAGR of 15% and stable market share for NBFCs, BAF's market share amongst NBFCs/sector would have to increase to ~84%/14% in the next 10 years.

Exhibit 60: BAF's market share in personal loan portfolio would have to double in the next 10 years if we assume 25% CAGR



Source: Company, CRIF High Mark, Ambit Capital research, Note: We have considered BAF's Urban B2C and rural portfolio for market share in personal loan, We assumed BAF PL/rural book growth rate ~25% and industry growth rate ~15% to arrive at estimated market share in FY32

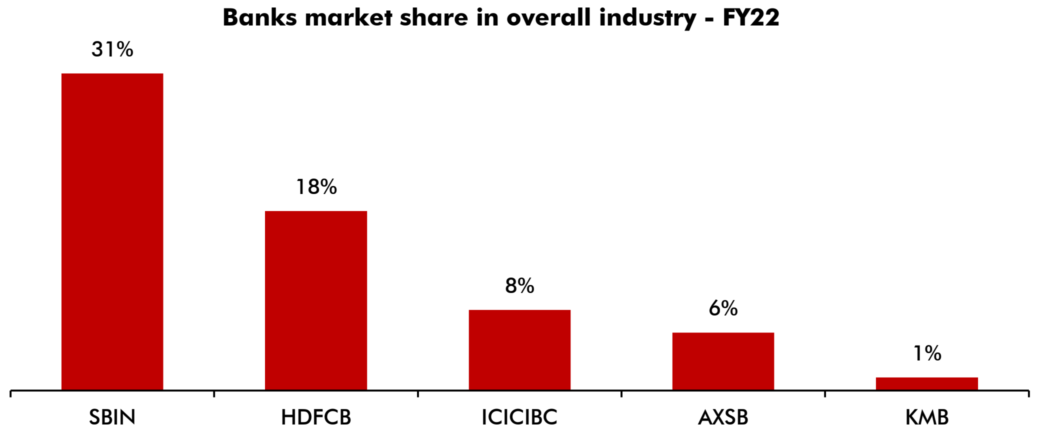
Exhibit 61: ...and almost 85% share amongst NBFCs if we assume 25% CAGR which looks unlikely



Source: Company, CRIF High Mark, Ambit Capital research, Note: We have considered BAF's Urban B2C and rural portfolio for market share in NBFCs personal loan, We assumed BAF PL/rural book growth rate ~25% and industry growth rate ~15% to arrive at estimated market share in FY32

Compared to that, large-cap private sector banks have less than <20% market share in this segment despite their size, reach and cost of funding advantage.

Exhibit 62: Large private banks command less than 10% market share except HDFCB



Source: Company, CRIF High Mark, TransUnion CIBIL, Ambit Capital research

Moreover, data shows that weighted average yield for personal loans for banks in India is 10.5% (vs >15% for BAF) and only 13% of personal loans of banks have more than 13% loan yield. It implies that BAF market share in >13% loan yield segment at overall industry level is already ~35%. Hence, we believe BAF would have to compromise on yields as it further scales up its personal loan book.

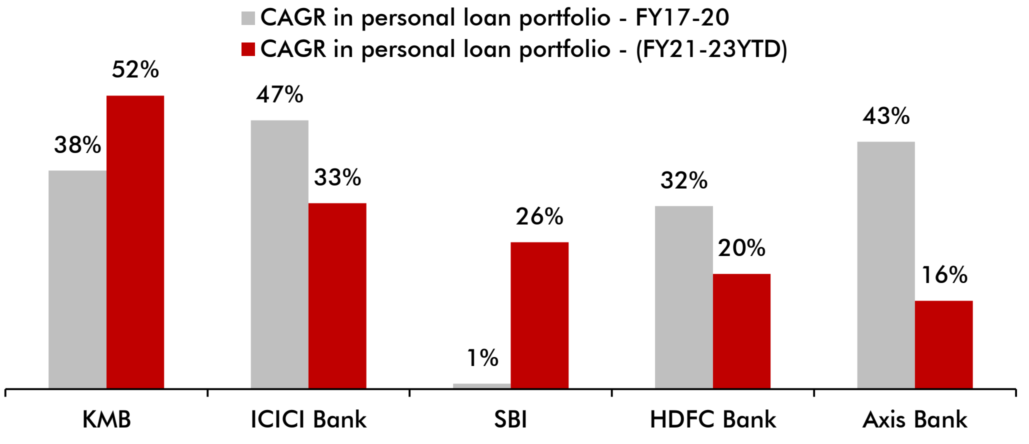
Exhibit 63: Only 13% of personal loan portfolio of banks have more than 13% yield

Lending Yield	% of personal loans
<10%	33%
10%-13%	54%
>13%	13%
10.50%	**100%**

Source: RBI, Ambit Capital research

In recent times, banks have become quite active in this segment due to higher yields and better ability to underwrite these loans with more large banks having loan book CAGR of >20% over FY21-FY23YTD.

Exhibit 64: Large banks have become more active in personal loans over the last 2 years



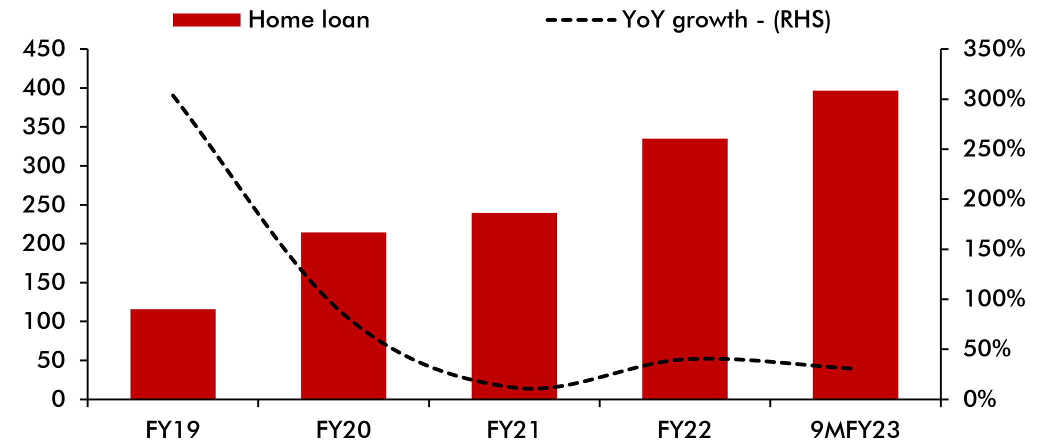
Source: Company, Ambit Capital research, we have considered only PL portfolio of banks, YTD represent 9mFY23

Banks have been able to secure such a large market share owing to their customer ownership (deposits, transactions). Also, banks have an inherent advantage over BAF on cost of funds to target high-end customers. Given that banks are targeting upper layer of the customers, BAF can still expand this portfolio by focusing on non-salaried and rural customers. However, given high market share of BAF within NBFCs, BAF's personal loan portfolio is unlikely to grow faster than industry.

Home loans – high growth potential but low RoA/RoE business

BAF entered this business in 2011, but started accelerating growth from FY19. BAF home loan portfolio stands at Rs397bn at Dec'22 and has grown at 74% over FY18-FY23YTD (CAGR).

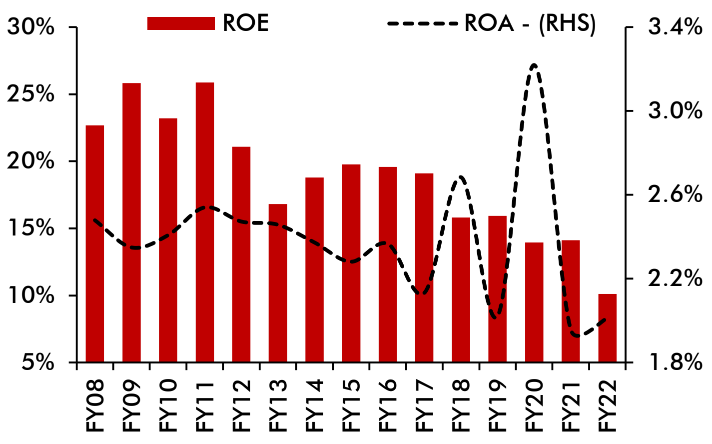
Exhibit 65: Coming from a low base, BAF's HL portfolio has contributed to retail AUM growth; sustaining this growth will be difficult due to high competitive intensity



Source: Company, Ambit Capital research

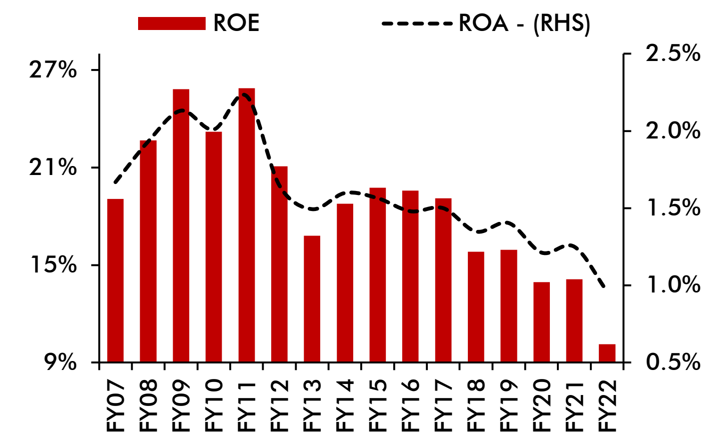
BAF caters to affluent customers in this segment (average ticket size of Rs5.1mn vs Rs3-4mn for banks/large HFCs). BAF's market share in home loans is relatively low at ~1.3% in overall industry and ~4% within HFCs. Hence, growth potential is high for BAF in this business. However, home loans are low RoA/RoE business and HFCs operating in affluent/salaried segment have seen their RoA/RoE compressing over the years. E.g. both HDFC and LICHF have seen significant contraction in their RoA/RoE over the last decade.

Exhibit 66: HDFC's RoE has declined over long term



Source: Company, Ambit Capital research

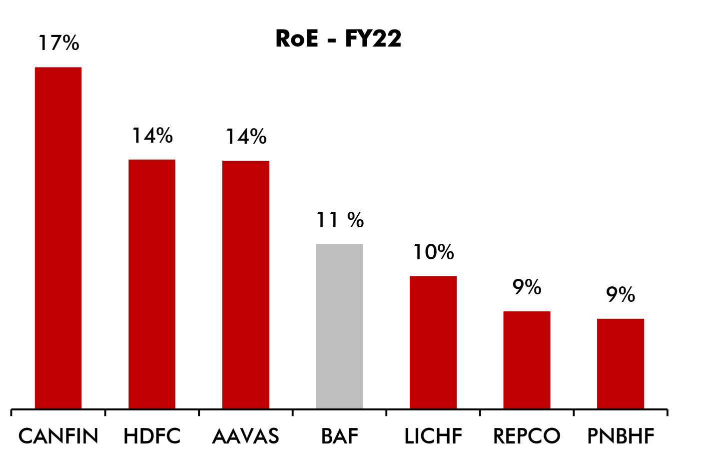
Exhibit 67: LICHF's RoE/RoA declined too due to competition



Source: Company, Ambit Capital research

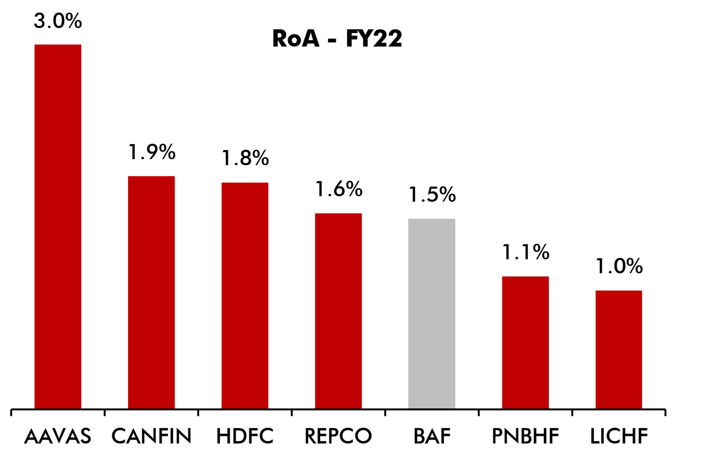
Low RoA/RoE in home loans is visible across the board with only one lender having >15% RoE in this business.

Exhibit 68: BAF housing business fairs well compared to HFCs…



Source: Company, Ambit Capital research

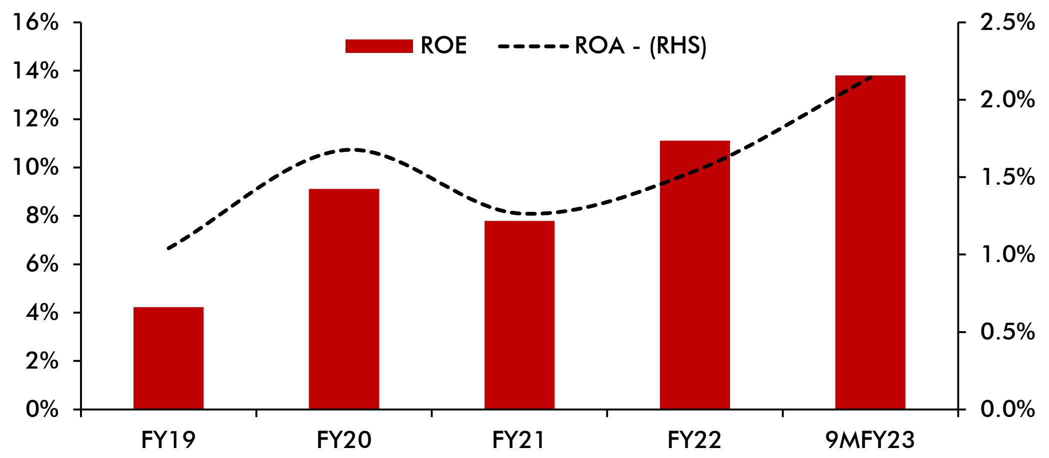
Exhibit 69: …Similarly, BAF's RoA are at par with prime HFCs



Source: Company, Ambit Capital research, Note: We have considered core RoA for HDFC

This is visible in historical RoA/RoE of BAF as well where despite gaining scale and 40% non-housing mortgage loans, RoE is still <15%.

Exhibit 70: BAF HOUSING's RoA/RoE has been improving



Source: Company, Ambit Capital research

The low loan yield in housing finance can be gauged from the fact that weighted average lending yield on housing loans for banks is ~8.5% with 88% of housing loans in India having less than 9% loan yield.

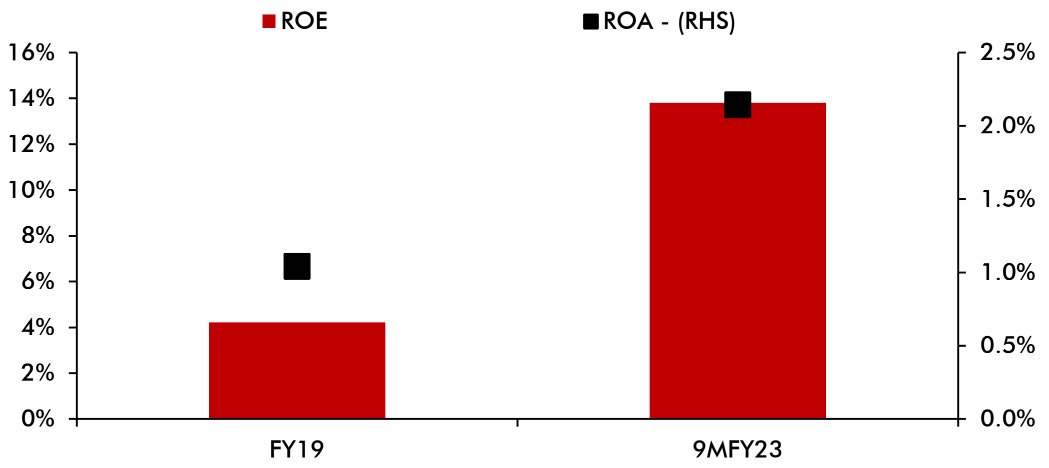
Exhibit 71: Majority of home loans given by banks <9% yield

Lending Yield	% of home loans
<9%	88%
9%-12%	12%
>13%	0%
8.50%	**100%**

Source: RBI, Ambit Capital research

BAF is running its housing finance business through a separate housing finance subsidiary. Despite 40% of loans in HFC being high yield non-housing loans, RoE of BAF's HFC is still below <14%.

Exhibit 72: BAF housing finance generates <14% RoE

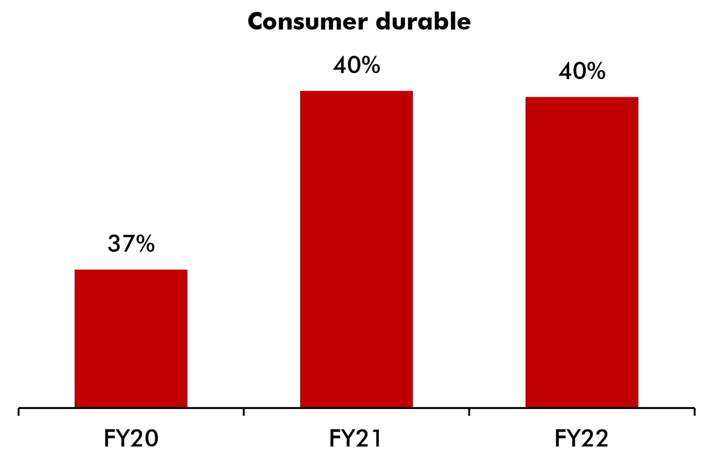


Source: Company, Ambit Capital research

Consumer durables/2-wheelers and new initiatives are unlikely to add to scale

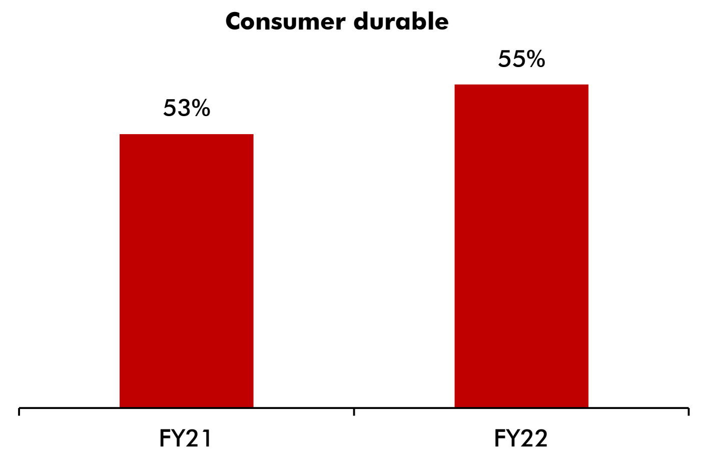
Consumer durable financing and 2/3-wheeler financing constitute 7% and 51% of BAF AUM, respectively. Through its early on investments in distribution and OEM tie-ups, it has championed this segment with ~40% market share. However, given their short tenor, these products are not balance sheet builders. Moreover, sales shifting to digital channel and competition from credit card EMIs should hurt in terms of growth.

Exhibit 73: BAF has dominant market share in B2B sales finance in the overall industry...



Source: Company, Ambit Capital research, Note: we have considered only urban B2B sales finance

Exhibit 74: ...as well as among NBFCs



Source: Company, Ambit Capital research, Note: we have considered only urban B2B sales finance

Auto finance is mainly financing 2/3-wheelers of parent Bajaj Auto. BAF has recently announced that it will start financing 2/3-wheelers of other manufacturers. However, this industry size is too small to move the needle in terms of overall AUM growth.

BAF recently announced that it is planning to venture into gold loans and microfinance loans. However, market size of both the products is relatively small at Rs4.6trn and Rs3trn respectively. Moreover, both businesses are fragmented businesses with regional leaders and hence building pan-India leadership in this business would not be possible for BAF in these businesses.

Exhibit 75: Scalability in newer segment

Category	Market Size	Comments
Gold loans	~Rs4.6trn	▪ The industry CAGR has been <10% over the last decade which seems to be result of size saturation and increased competition from personal/microfinance loans. Previous attempts by NBFCs like M&M Finance, Cholamandalam and Magma (now Poonawalla) have been unsuccessful. The business requires a different branch infrastructure compared to rest of the lending businesses due to branch-driven model. 90% of the costs being fixed in nature means that per branch AUM requirement of >Rs50mn to breakeven in this business.
Microfinance loans	~Rs3trn	▪ A fragmented industry with many regional players. Cross-cycle RoE of the business has been <15% for even best of the players due to periodic mass defaults in the segment.
Auto loans	~Rs4.7trn	▪ Entry barriers are very high in this business given dealer-driven loan originations. NBFCs like L&T Finance and IIFL tried their hands in this business, but were not successful. At the upper end, its dealer relationships and cost of funds which gives an advantage to the banks. At lower end, its employee intensive business with intensive on-ground knowledge of each product and region.

Source: Company, Ambit Capital research

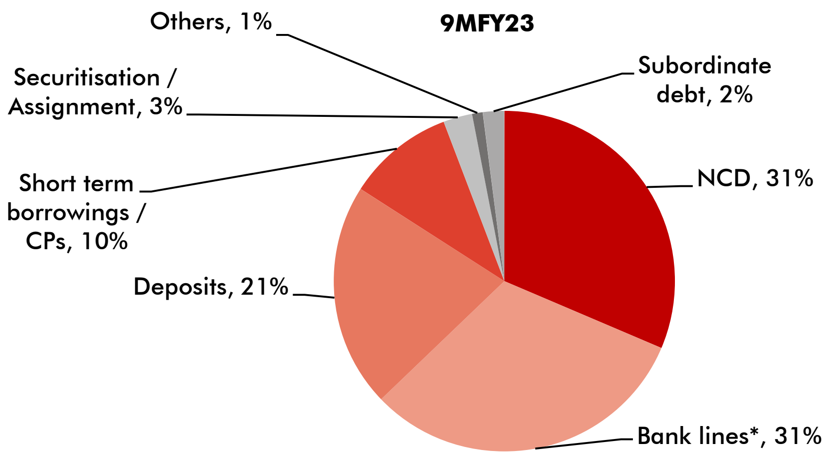
Banking license – Is company borrowing from the future?

Biggest challenge BAF is going to face to scale up would be on the liability side as HFCs/NBFCs can't access low-cost CASA deposits. Hence, scaling up at current pace would invite the twin issue of availability and cost of funding. BAF's current market share in NBFC/HFC bank borrowings/bond borrowings/deposits is 5%/5%/18% and has to surpass market leader HDFC Ltd's current market share in a decade to grow at 25%. This looks unlikely given HDFC had an advantage on branding, higher limit on public deposits and better access to bond market. Moreover, even if BAF is able to garner these liabilities, its cost of funds is going to be ~250bps higher vs large banks making it uncompetitive in the segments which can give it further scale. Banking license is a solution but pace of deposit gathering post bank conversion will be an outcome of growth/margin trade-off (akin to assets) and could lead to RoE coming down to ~15%.

Liability-side challenges on quantum as well as cost

Bajaj Finance has a well-diversified funding mix with non-convertible debentures (34%), bank borrowings (31%), deposits (21%) and commercial paper (10%) being major source of funds for BAF.

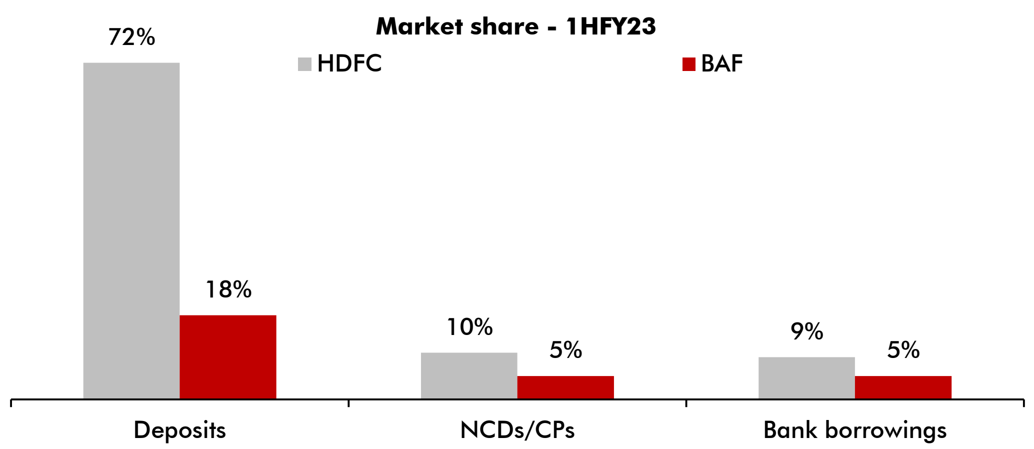
Exhibit 76: Diversified funding mix



*Source: Company, Ambit Capital research, * bank lines includes CC/OD/WCDL*

At present BAF's share in total bank loans to NBFCs/HFCs and NCDs/CPs issued by HFCs/NBFCs is ~5% each. Its market share in deposits issued by HFCs/NBFCs is ~16%. Compared to that, biggest non-bank lender HDFC Ltd has ~10% market share in bank borrowings/NCDs and ~72% market share in deposits.

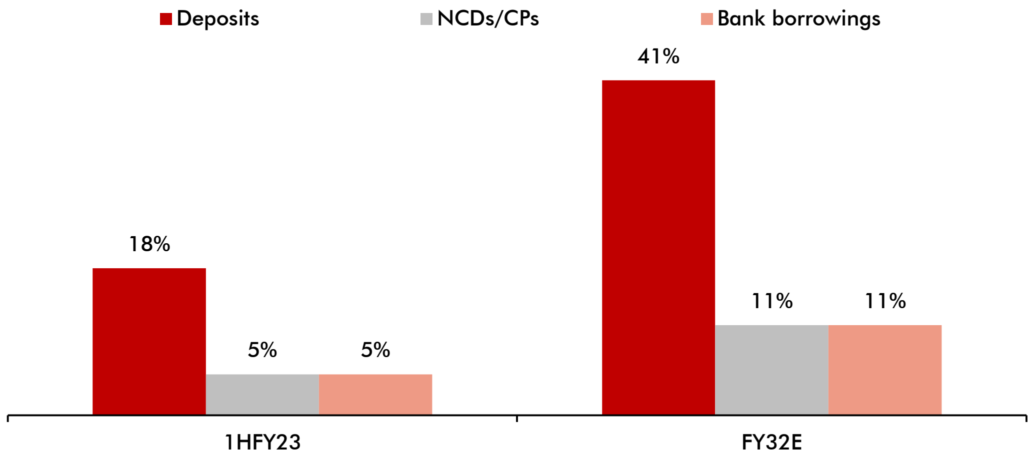
Exhibit 77: BAFs share in NBFCs/HFCs liabilities is second only to HDFC Ltd



Source: RBI, Company, Ambit Capital research

Assuming 15% growth for industry in each liability pool and 25% growth for BAF in each sub-segment of liability pool (to support BAF's expected loan growth), BAFs market share in deposits would go up to ~40% with ~11% market share in bank borrowings/NCDs each.

Exhibit 78: BAFs share in NBFCs/HFCs have to increase massively to achieve growth targets



*Source: RBI, Company, Ambit Capital research, Note - *FY22 estimated numbers for Industry (HFCs+NBFCs) liability sourcing while for BAF we have considered actual data as per BAF presentation, assumed 25% liability sourcing growth for BAF and 15% for industry to derive estimates numbers*

Hence, market share of BAF in liabilities would be even higher compared to what HDFC Ltd has right now.

Various caps on deposit raising and exposure of banks/MFs/insurance companies to NBFCs/HFCs mean that beyond a certain size, NBFCs/HFCs have no choice but to become a bank if they want to scale up beyond a certain size.

Public deposits – Problem of size and regulation

Unlike banks, NBFCs cannot raise low-cost demand deposits (CASA). Few NBFCs like BAF who have deposit taking license can only raise term deposits of more than 1-year maturity. RBI over the years have actively discouraged NBFCs/HFCs from raising deposits by coming out with stringent guidelines on deposit mobilization of NBFCs/HFCs. In fact, ***RBI has not issued any new deposit taking license to any NBFC/HFC since 1997***. This makes deposit mobilization relatively difficult for NBFCs/HFCs.

Exhibit 79: A sneak-peak in RBI's guidelines for accepting deposits for deposit taking NBFCs/HFCs

Under Chapter – IV / VII	Rules for HFCs/NBFCs
Minimum credit rating	Minimum investment grade rating required.
acceptance of demand deposits	Cannot accept demand deposits and deposit maturity has to be minimum 12 months.
Ceiling on quantum of deposit	Total deposit should not exceed 1.5x of networth for NFBCs and 3.0x for HFCs.

Source: RBI, Ambit Capital research

The impact of these stringent regulations is visible in the fact that total outstanding ***deposits of NBFCs/HFCs are just Rs2.3trn which is just ~2% of total banking deposits***. Moreover, NBFCs/HFCs deposits are higher ticket size vs banks (~Rs1mn for NBFCs/HFCs vs ~Rs360K for banks) and hence are more rate sensitive. This is visible in BAF paying a premium of ~20bps-85bps vs HDFC Bank on various deposit maturity buckets.

Exhibit 80: BAF has to pay ~20-85bps premium to large-cap banks on term deposits

Deposit rates	Bajaj Finance	HDFC Bank
15 months	7.30%	7.10%
2 year	7.50%	7.00%
33 months	7.70%	7.00%
44 months	7.85%	7.00%

Source: Ambit Capital research, Company

Hence, term deposits are not only scarce source of liabilities for NFBCs/HFCs, they are relatively costlier as well compared to banks.

Assuming 15% tier-1 capital, **deposits should not be more than ~26% of total funding (vs ~22% at present) for BAF assuming 7x leverage.** Moreover, incremental growth for BAF is coming from its HFC subsidiary and this subsidiary is not allowed to raise deposits. Hence, we believe that deposits as a **liability source should not grow more than ~20% CAGR in the medium term for BAF** (assuming 18% CAGR in shareholder's equity).

Regulatory caps on banking/insurance/MF exposure

Moreover, other sources of debt providers also have exposure limits.

Exhibit 81: Banks/MFs/insurance have single sector/borrower exposure limits

Single sector/borrower exposure limit
Banks – A single bank's exposure to a single NBFC is restricted to 20% of tier-1 capital of the bank.
MFs – A MF scheme cannot invest more than 30% of its corpus to a single sector.
Insurance companies – Cannot have more than 30% exposure to BFSI sector.

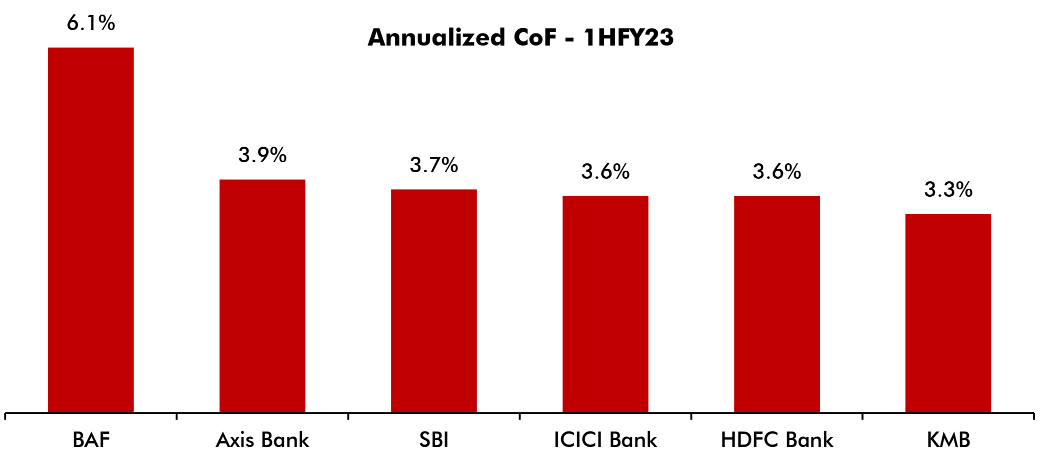
Source: Ambit Capital research, Company

Whilst BAF has lot of headroom to borrow from these sources given its current size, ultimately BAF's growth would also be a function of growth of lending corpus of these institutions.

BAF would have at least ~250bps higher funding vs banks

BAF has lowest cost amongst NBFCs/HFCs due to its diversified funding profile and high credit rating. However, Bajaj Finance is an NBFC and hence has a disadvantage vs banks on availability of liabilities and cost of liabilities. E.g. Cost of funds for BAF in 1HFY23 was 6.1% vs for 3.3%-4.0% for large banks against whom it will have to compete to gain scale.

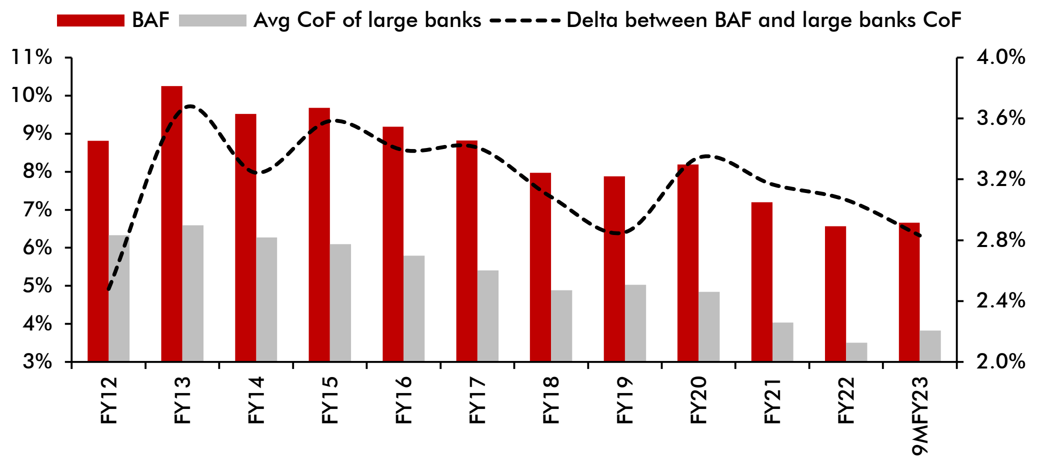
Exhibit 82: Cost of funds of BAF is high compared to large banks



Source: Company, Ambit Capital research

Though BAF has been able to bridge gap on cost of funding with banks over the last decade from ~3.5% to ~2.8%, there has not been any improvement in this gap post FY19. Given that banks have around ~40% of their funds from CASA which costs ~2.5%, even best of the HFCs/NBFCs would have their cost of funds ~250bps higher than large banks.

Exhibit 83: BAF cost of funds delta is still the same as it was in FY19 and higher than FY12



Source: Company, Ambit Capital research, Note: we have considered HDFCB/ICICIBC/AXSB/KMB/SBIN for average of large banks cost of funds.

Until now, high cost of funds vs banks has not been a deterrent for BAF to manage growth and profitability. However, as BAF further scales up as an NBFC, it is likely to face higher competition from banks. The implied ask rate on liability-side growth is unlikely to come at a lower cost, thus making BAF uncompetitive vs banks.

Hence, a combination of high market share in existing products, limited size of high yield loan market, increasing competition from banks in personal/SME/home loans and inability to grow liabilities and further bring down cost of funds, we expect loan growth to slow down and contraction in NIMs going forward. We expect loan growth/NII CAGR of 21%/17% over FY23-25 vs 25%/27% CAGR over FY18-23.

Exhibit 84: BAF growth should slowdown

	CAGR over FY18-23	CAGR over FY23-25
AUM growth	24.6%	21.3%
NII growth	27.1%	16.8%
PPOP growth	31.3%	17.1%
NIM	9.9%	9.9%

Source: Company, Ambit Capital research

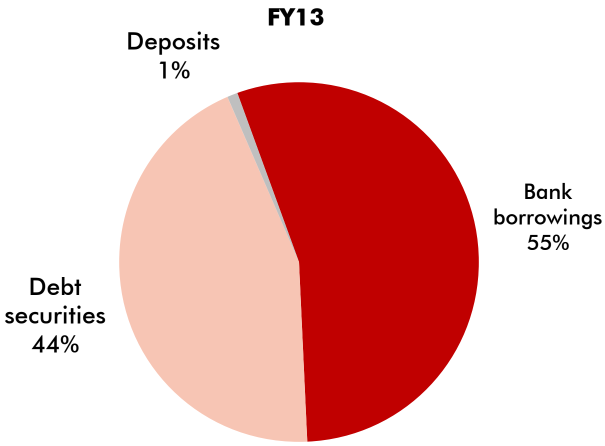
Need for banking license is inevitable

Given the challenges around scaling up as an NBFC, we believe BAF would eventually convert into a bank. BAF had applied for the universal bank license in 2013, but did not get a license (IDFC and Bandhan got license in that round). The disappointment of the company in not getting a banking license can be summed up in the statement made by Chairman Rahul Bajaj in its FY14 annual report.

"We are disappointed that we did not get banking license – Would continue to do well to transit towards bank license and expect to make a cut in the next round" Chairman Rahul Bajaj in FY14 annual report.

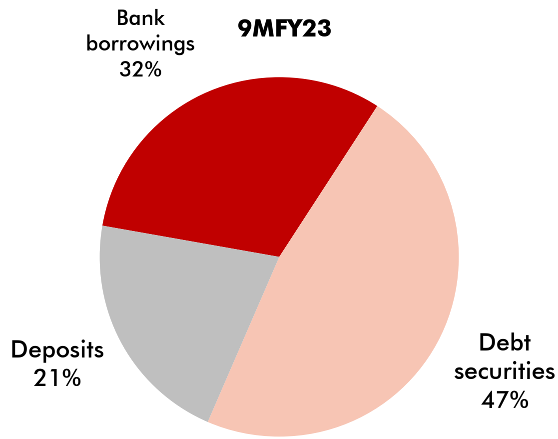
However, the recent statements of the management suggest that management is not in a hurry to get a banking license. Probably, BAF's ability to borrow more from corporate bond market and through deposits might be the reason behind this change in thought process on banking license. E.g. share of bank borrowings has halved for BAF between FY13 and Sep'22.

Exhibit 85: Bank borrowings/debt securities were the major source of overall borrowings...



Source: Company, Ambit Capital research

Exhibit 86: ...however, borrowing mix is evenly distributed now as deposits share improved



Source: Company, Ambit Capital research

However, we believe longer the BAF takes to convert into a bank, harder would be the impact on its growth and profitability. Bigger the size at the time of conversion, larger would be the regulatory requirement around PSL/CRR/SLR and requirement in bank compliant liabilities. However, deposit mobilization happens at gradual pace irrespective of the size of NBFCs. E.g. IDFC which converted into a bank at bigger size, has seen just Rs172bn per year deposit accretion and deposits are just 58% of total balance sheet despite being in operations for 7 years.

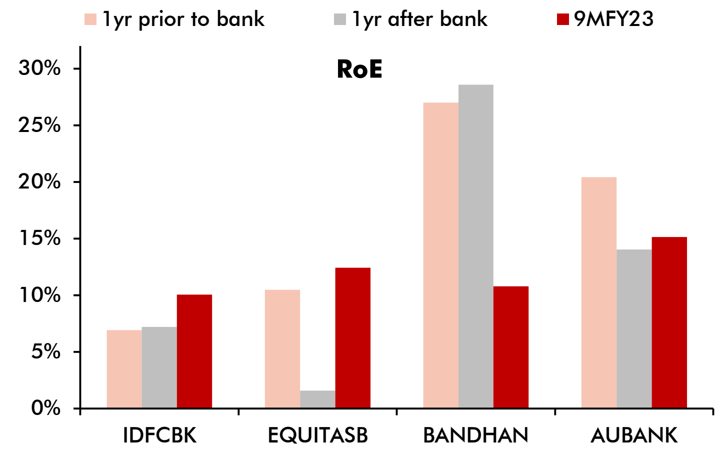
Exhibit 87: Deposit accretion for bank happens at its own pace

		Current (1HFY23)							
	Commencement of banking operation	Branches	CA	SA	TD	Deposit	Per year deposit mobilisation (Rs bn)	Deposits as % balance sheet	Cost of funds (%)-1HFY23
IDFCBK	Nov-15	670		633,050	601,370	1,234,420	172	58%	5.3%
BANDHAN	Aug-15	1,190	50,500	354,700	588,458	993,658	134	72%	5.3%
AUBANK	Apr-17	980	28,670	218,070	336,610	583,350	101	75%	5.6%
EQUITASB	Sep-16	887	6,590	97,970	112,702	217,262	34	73%	6.4%
UJJIVANS	Feb-17	590	4,930	50,030	149,002	203,962	34	76%	6.0%

Source: Company, Ambit Capital research, Note: TD of AUBANK/IDFCBK is including Certificate of deposits

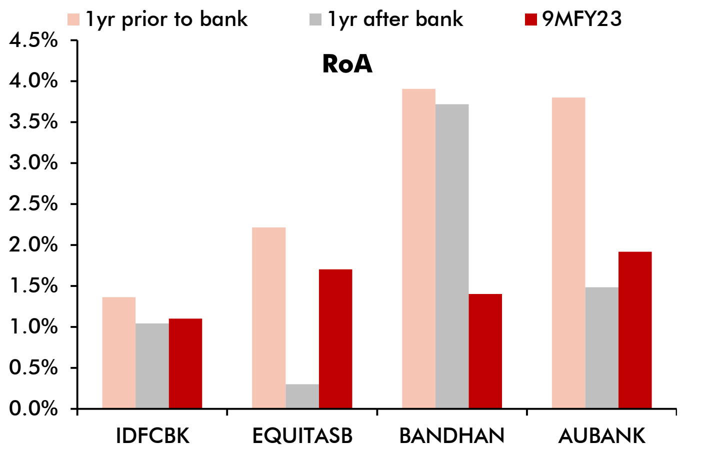
Hence, more the delay in taking a banking license, more severe the impact would be on growth/RoA/RoE. Scanning the journey for banks receiving license in recent times, it is clearly visible that all the banks have failed to generate pre-banking RoA/RoE despite being in banking business for 5-7 years.

Exhibit 88: RoE has not improved even after being converted into bank



Source: Company, Ambit Capital research

Exhibit 89: Similarly, RoA trajectory has been trending lower too



Source: Company, Ambit Capital research

Hence, we find it a bit surprising that BAF has no near-term plans to convert into a bank. It seems to be a case of borrowing from the future in our view. E.g. ***If BAF were to convert into a bank today, its RoE would fall to ~15%-16% from current cross-cycle RoE of ~20%.***

Too late in payments business

BAF's new strategic initiative is to build a new digital ecosystem on the lines of Fintechs where consumers use BAF app as a super app for all its needs. On other hand, it's trying to provide payment and marketing solutions to merchants. However, we believe that heavy traffic on the app and networking effect are key in success of this strategy. Given that heavy traffic is mostly cornered by UPI payment apps, e-commerce players and food delivery apps, we doubt success of this strategy. Moreover, there are multiple banks/Fintechs who are already present in these services and BAF is a late entrant in this business. Hence, we doubt that this strategy would give any meaningful uplift to growth and RoE of BAF.

Late entry into payment business

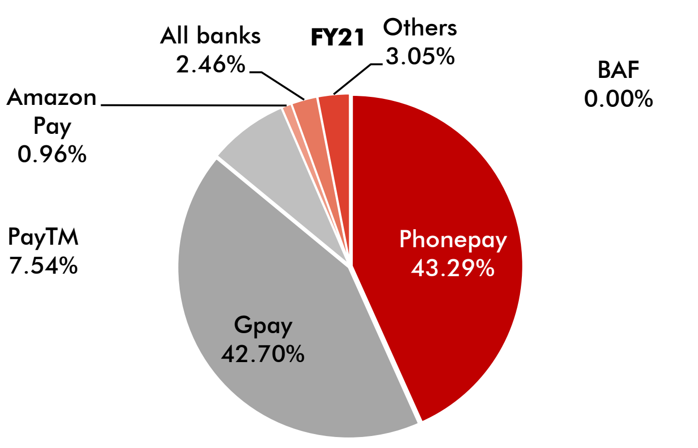
Management commentary over the last two years suggest that BAF is trying to build a new digital ecosystem. BAF's app is at the center of strategy where customers can visit the digital app and can purchase consumer durables, other services and financial products, etc. The app will also have UPI payment capabilities and a prepaid wallet integrated into it. The payment functionality is to attract traffic on the app to cross-sell other products.

To merchants, BAF would provide payment gateway, QR codes, POS machines and advertising their product on BAF app.

We believe that success of this strategy is contingent upon BAF attracting regular and heavy traffic on its app. In our view, the key to attracting traffic on the app to be successful in payments. However, we believe that payments is a competitive business and gaining market in payments is going to be a herculean task for the company.

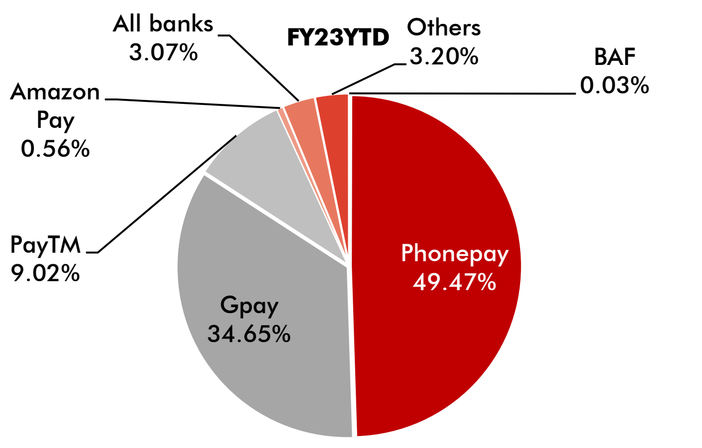
UPI is the most popular payment method in India. UPI payments are dominated by early Fintech start-ups like Phonepay, Google Pay and PayTM. Despite banks putting all their might behind UPI payments, market share of these Fintechs have remained high at ~93%.

Exhibit 90: Value-wise BAF's market share in UPI apps was negligible…



Source: NPCI, Ambit Capital research

Exhibit 91: …still in FY23YTD basis BAF's market share is negligible

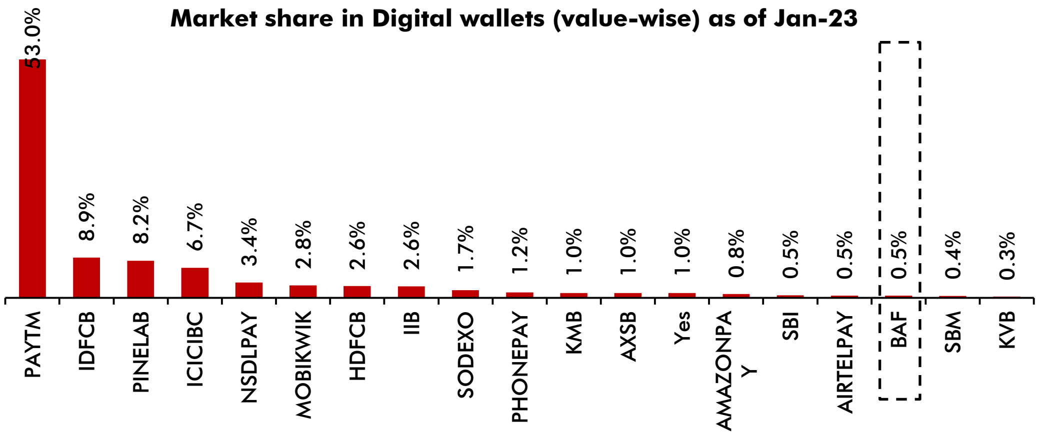


Source: NPCI, Ambit Capital research, FY23YTD represents Apr-Jan period

BAF market share in UPI payments (as an app) is still meagre **0.06%** in Jan'23. Given the networking effect of the existing players, we believe it's not going to be an easy task for BAF to gain market share here.

Digital wallets is another segment where Bajaj is trying to make inroads. However, wallets have failed to pick up in India due to popularity. Banks dominate wallet payments with ~84% market share with Paytm having ~53% market share. Amongst NBFCs, only Pinelabs and Sodexo have some reasonable market share.

Exhibit 92: Even in digital wallets BAF market share is very low



Source: RBI, Ambit Capital research

In business like payment gateways, we have established players like Razorpay, PayTM, Billdesk and CCavenues who have deep entrenched roots in this business. Same is the case with POS machines and QR codes where multiple banks and Fintechs are fighting for market share.

Merchant ecosystem model is followed by other players as well

BAF's efforts to make its app as a one-stop solution for buying consumer goods, financial services, other services and payments is not unique. PayTM is already trying to do this. Even banks like HDFC Bank, ICICI Bank have designed their apps in such a way that they can meet multiple needs of the consumers.

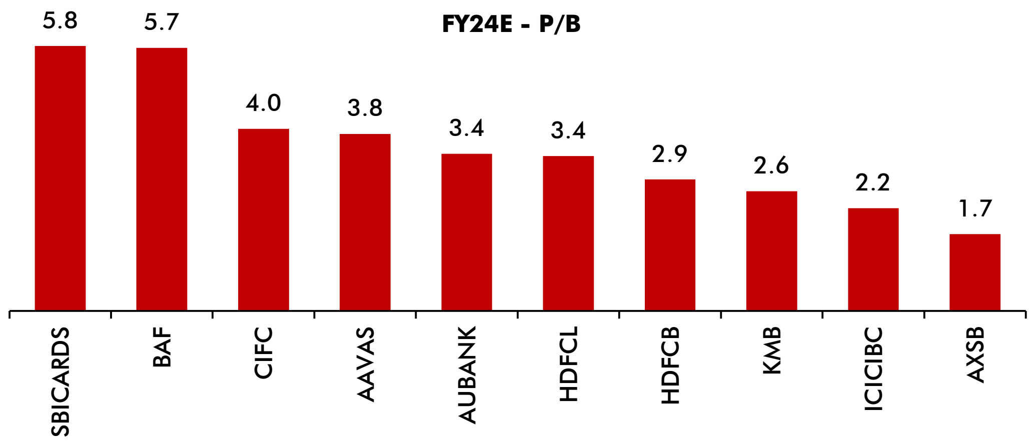
Hence, we see a low probability of BAF becoming successful in this business.

Valuation factors in high growth for long periods

BAF is the most expensive lender in India and trades at a significant premium to not only HFCs/NBFCs but also to large-cap private banks. BAF has re-rated over the years because of consistently high growth and high RoE. From trading at a discount to banks, BAF is now consistently trading a premium to large private sector banks. However, this premium over large-caps banks has come down as loan growth delta of BAF over banks has come down. As we expect loan growth to slow down to ~20% for BAF over FY25-42, which would be broadly in line with large-cap banks, we expect valuation premium for BAF over banks to also come down. We are building in EPS CAGR of 30% over FY22-25 with average RoE of ~22%. From a sustainable basis, we are building in 19% loan growth and 20% RoE over FY25-42, resulting in TP of Rs5,028 which implies 23x/4.7x FY24 EPS/BVPS

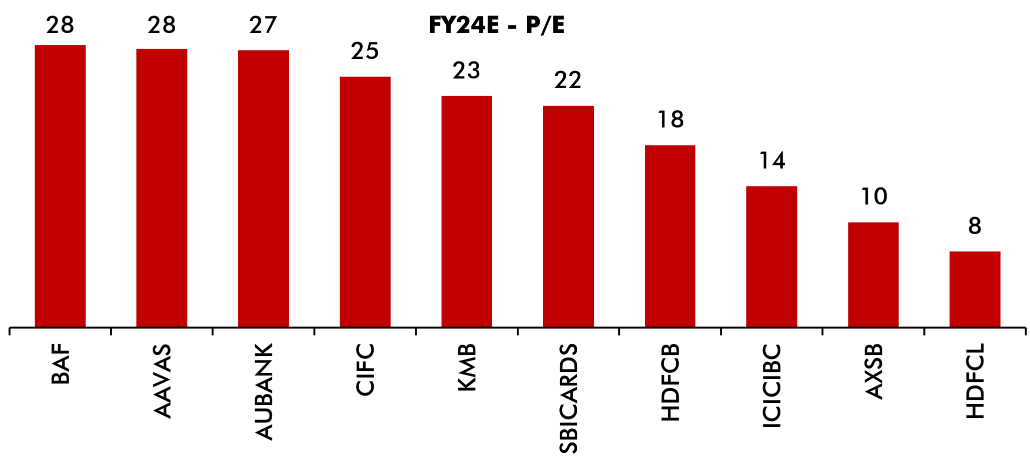
BAF is trading at 28x/6x FY24 P/E and FY24 P/B which is not only premium to other high-growth/high-RoE NBFCs/HFCs but large-cap banks as well.

Exhibit 93: BAF trades at a significant premium on P/B to peers who have higher RoE and growth



Source: Company, Ambit Capital research, Bloomberg, CMP as on 6th March 2023

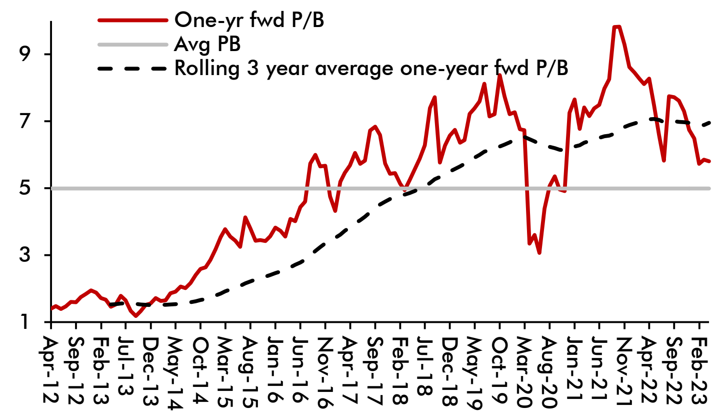
Exhibit 94: BAF trades at a significant premium on P/E to peers who have higher RoE and growth



Source: Company, Ambit Capital research, Bloomberg, Closing price as on 6th March 2023

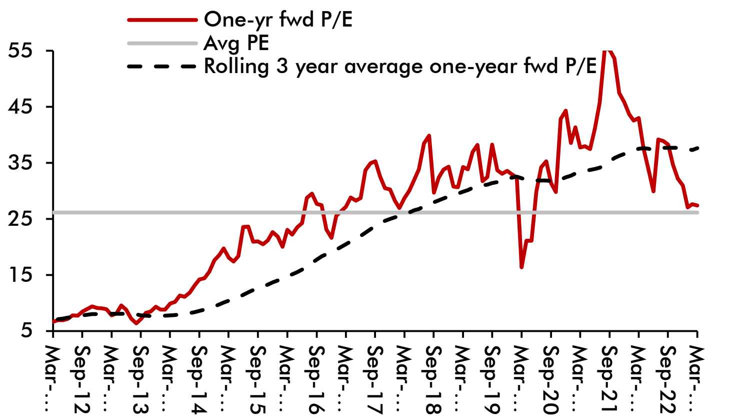
BAF has seen significant re-rating over the last decade with trading at 1.2x-1.4 P/B and 8x-10x P/E during 2012-13, at the peak stock traded at 10x P/B and 50x earnings. Despite some de-rating over the last 18 months, stock is still trading at a premium to its own history and peers.

Exhibit 95: BAF trades above its long-term average multiple…



Source: Bloomberg, Ambit Capital research

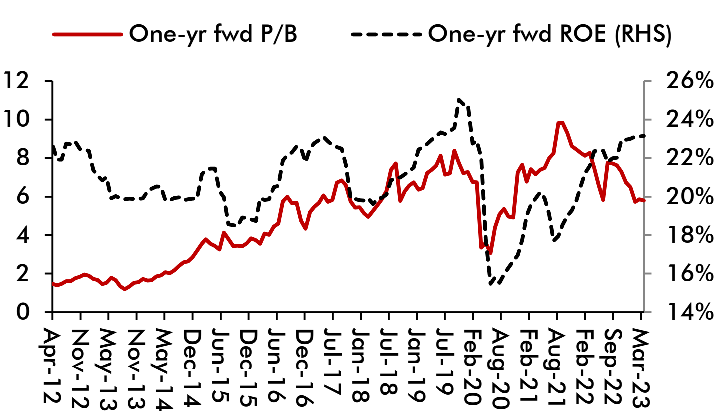
Exhibit 96: …and on PE as well



Source: Bloomberg, Ambit Capital research

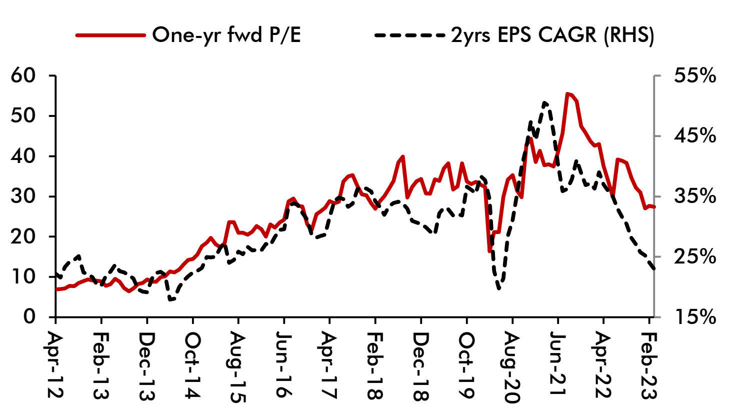
Rather than improvement in growth and RoE, the consistency of earnings growth and RoE has been a key reason for re-rating of the stock. Successful navigation on growth, RoE and asset during demonitisation and Covid put faith on sustainability of high growth/RoE leading to re-rating.

Exhibit 97: Sustainability of RoE has led to expansion in PB of BAF



Source: Bloomberg, Ambit Capital research

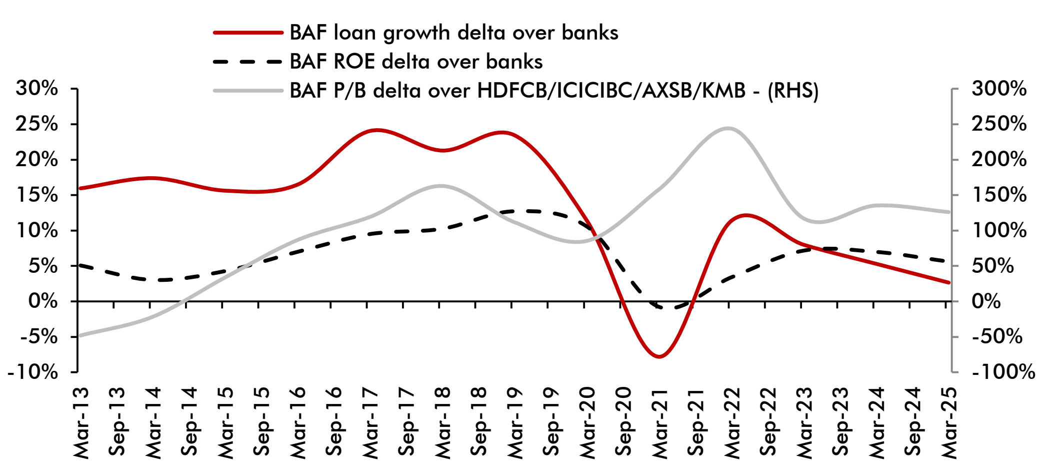
Exhibit 98: Sustainability of high earnings has led to PE multiple expanding for BAF



Source: Bloomberg, Ambit Capital research

BAF's valuation premium over banks has been a function of higher ROE/growth. From trading at a discount to banks till FY14, BAF has started trading at a premium to private sector banks. There was a sharp drop in valuation premium during Covid when growth slowed and asset quality deteriorated for BAF vs private sector banks.

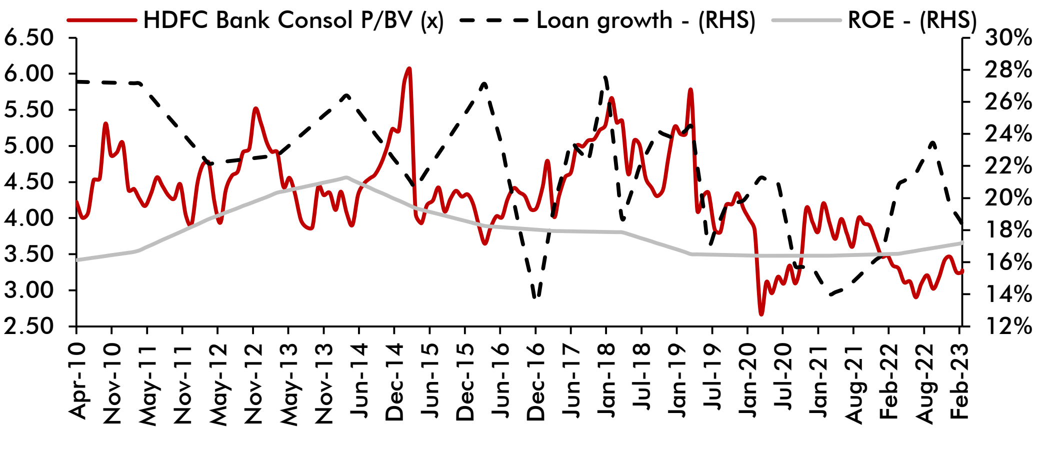
Exhibit 99: We expect BAF's valuation premium over banks to come down with slowdown in growth and ROE



Source: Company, Bloomberg, Ambit Capital research

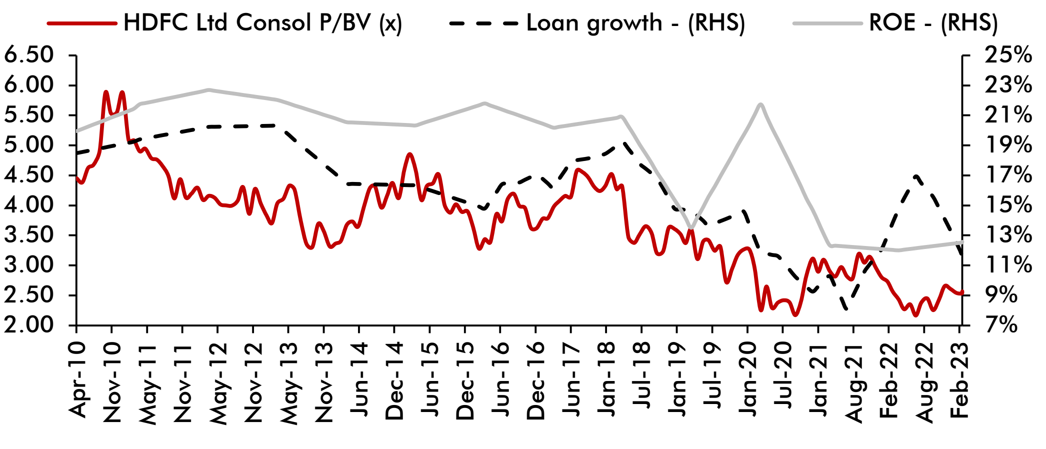
History shows that as growth and RoE slow down valuation do de-rate. We have seen this in the case of even the best-run banks/companies like HDFC Bank, HDFC Ltd and Kotak Mahindra Bank.

Exhibit 100: HDFC Bank P/BV de-rated over last couple of years



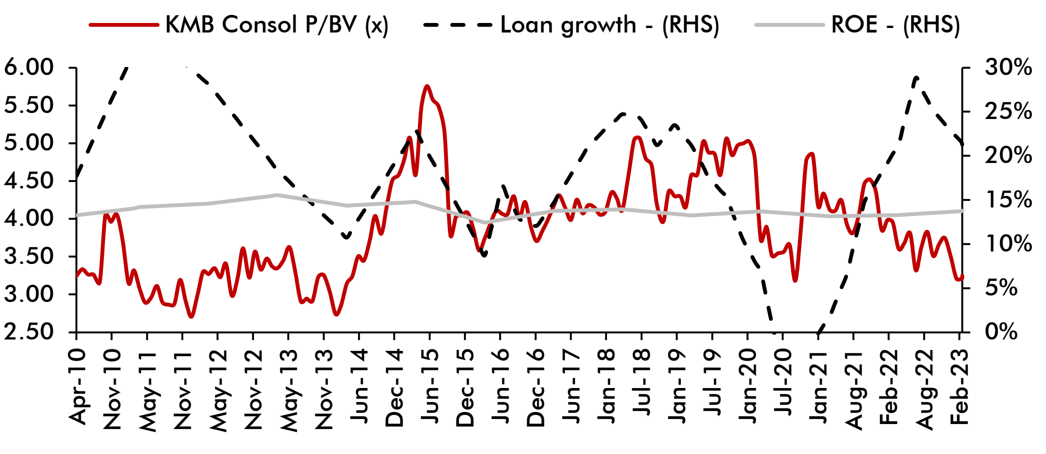
Source: Ace Equity, Company, Ambit Capital research

Exhibit 101: Trailing P/BV de-rated over a period as growth slowed



Source: Ace Equity, Company, Ambit Capital research

Exhibit 102: P/BV de-rated in last couple of years



Source: Ace Equity, Company, Ambit Capital research

The current valuations are stretched in the context of both near-term earnings trajectory as well as long-term RoE/growth potential.

Exhibit 103: We expect BAF's EPS CAGR to be 30% over FY22-25 driven by 23% AUM CAGR in FY22-25E and average RoA of 4.5%

	FY20	FY21	FY22	FY23E	FY24E	FY25E	Comments
Assumptions							
MSME/LAS/Commercial loans	10%	13%	52%	35%	27%	22%	▪ We expect growth to slow down in the segment due to size and increased competition from the banks.
Personal/rural loans	38%	1%	29%	25%	23%	20%	▪ We expect growth to slow down in the segment due to size and increased competition from the banks.
2/3 wheeler loans	35%	-7%	-16%	10%	10%	10%	▪ We expect growth to be lower vs other segments as growth would be a function of growth in Bajaj Auto sales.
Consumer durable loans	3%	-9%	30%	10%	15%	15%	▪ ~55% market share in the segment means that growth would mirror industry growth.
Mortgages	36%	7%	24%	24%	22%	20%	▪ We expect growth to slow down in the segment due to size and increased competition from the banks.
Total AUM growth	**27%**	**4%**	**29%**	**25%**	**23%**	**20%**	▪ **We expect ~23% CAGR in AUM during FY22-25E vs 19% CAGR during FY19-22.**
Net interest margins (calculated)	10.3%	9.3%	10.0%	10.4%	9.9%	9.5%	▪ We expect NIMs to decrease for BAF due to: i) rising cost of fund in rising rate environment; ii) Limited uptick in yields on AUM given incremental growth coming from lower yield loans.
Fee Income as % of AUM	2.6%	2.3%	2.5%	2.4%	2.4%	2.4%	▪ We expect fee income-to-AUM ratio to remain broadly flat given new distribution products (insurance, etc.).
Cost to AUM ratio	4.3%	3.9%	4.3%	4.5%	4.4%	4.3%	▪ Pick-up in disbursements and diversification in newer segments will keep cost-to-AUM ratio high.
Credit cost	3.0%	4.0%	2.7%	1.4%	1.4%	1.3%	▪ Historical movement from stage-1/2 assets to stage-3 and write-off trends indicate that average credit should be ~190bps over FY23-25.
Outputs (Rs bn)							
Net interest income	135	139	175	232	273	316	
Operating profit	113	115	143	184	218	253	
Net profit	53	39	70	114	133	154	
EPS (Rs)	89	73	116	188	220	255	
BVPS (Rs)	537	613	722	886	1,077	1,297	
ROA (%)	3.5%	2.3%	3.5%	4.6%	4.4%	4.2%	
ROE (%)	20.2%	11.3%	17.4%	23.4%	22.4%	21.4%	

Source: Company, Ambit Capital research

Our FY24/25 EPS estimates are 3%/9% below mainly due to lower growth and NIM expectations.

Exhibit 104: Ambit vs Consensus: We are 3%/9% lower than consensus in FY24/25E earnings

	Consensus	Ambit	Difference
Net profit (Rs bn)			
FY24E	138	133	-3%
FY25E	170	154	-9%
EPS (Rs)			
FY24E	227	220	-3%
FY25E	281	255	-9%
BVPS (Rs)			
FY24E	1,088	1,075	-1%
FY25E	1,338	1,294	-3%
RoE (%)			
FY24E	23%	22%	-52 bps
FY25E	23%	21%	-182 bps

Source: Bloomberg, Company, Ambit Capital research

Based on our assumptions described in the previous sections and assuming cost of equity of 13.50% (vs 13% for large-cap private sector banks due to slightly higher risk in NBFC model), our "excess return model" gives a target price of Rs5,028, implying 4.7x FY24E BVPS and 22.9x FY24E EPS.

Exhibit 105: Sensitivity of valuations to long-term growth and RoE assumptions

FY26-42E	Bear Case	Base Case	Bull Case	Comments
Average AUM growth FY25-32	17%	20%	23%	In the base case, we are assuming ~20% CAGR in loan book over FY25-32 due to competition from banks/prime NBFCs.
Average AUM growth FY32-42	16%	19%	22%	As scale increases along with competition, we expect growth to taper-off to 18.5% CAGR over FY32-42.
Terminal growth				
Average RoA- FY25-32	3.9%	4.1%	4.2%	With incremental growth coming from lower RoA/RoE products, we expect lower RoA to settle lower than 4.6% average over FY23-25E.
Average RoA- FY32-42	3.3%	3.7%	4.1%	As scale increases along with competition and lower profitability products, ROAs would decline further.
Target Price (Rs)	**2,644**	**5,028**	**9,322**	
Implied P/E - FY24	12.0	22.8	42.3	
Implied P/B - FY24	2.5	4.7	8.7	

Source: Company, Ambit Capital research

Exhibit 106: BAF is trading at ~120% premium to large-cap private sector banks despite growth/RoE gradually converging towards large-cap banks

	Mcap (US$bn)	Ambit Stance	Up/(Down) (%)	P/E (x)			P/B (x)			EPS CAGR (%)	RoA (%)			RoE (%)		
				FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23-25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
NBFCs																
Bajaj Finance	45.5	SELL	(18)	33	28	24	7.0	5.7	4.7	16	4.6	4.4	4.2	23	22	21
SBI Cards	8.7	BUY	48	28	22	17	7.3	5.8	4.5	30	6.2	6.1	6.2	29	29	30
Cholamandalam	7.8	SELL	(5)	28	25	20	4.6	4.0	3.4	17	2.3	2.1	2.2	18	17	18
Shriram Finance	5.7	SELL	11	7	8	7	1.1	1.0	0.9	n.m.	3.4	2.5	2.6	17	13	13
M&M Finance*	3.9	UR	NA	17	14	12	1.7	1.6	1.5	19	2.1	2.1	2.1	11	12	13
LIC Housing Finance	2.4	BUY	56	8	5	4	0.8	0.7	0.6	37	1.0	1.5	1.5	10	15	15
Aavas Financers	1.8	BUY	23	35	28	21	4.5	3.8	3.2	29	3.4	3.4	3.7	14	15	17
Aptus Value Housing	1.6	SELL	(8)	27	24	21	4.1	3.6	3.1	15	7.4	6.4	5.8	16	16	16
Can Fin Homes	0.9	SELL	(20)	12	12	11	2.1	1.8	1.6	8	2.0	1.8	1.7	18	17	16
Home First Finance	0.8	SELL	(17)	30	25	21	3.7	3.2	2.8	21	3.7	3.4	3.2	13	13	14
HDFC*	59.9	NA	NA	9	8	7	1.0	3.4	3.1	14	2.3	2.3	2.3	13	13	14
Muthoot Finance*	4.7	NA	NA	11	9	8	1.8	1.6	1.4	15	4.9	5.2	5.4	18	18	18
Sundaram Finance*	3.2	NA	NA	25	22	19	3.4	3.0	2.8	15	2.7	2.8	2.7	14	15	15
Manappuram*	1.1	NA	NA	7	6	5	1.0	0.9	0.8	16	4.6	4.8	5.2	16	16	17
PNB Housing Finance*	1.2	NA	NA	11	9	8	0.9	0.9	0.8	18	1.5	1.7	1.7	10	10	11
				18	**15**	**13**	**2.7**	**2.5**	**2.2**	**20**	**3.4**	**3.3**	**3.3**	**15**	**16**	**16**
Large Banks																
HDFC Bank*	110.9	RL	NA	20	18	15	3.3	2.8	2.4	17	2.0	1.9	1.9	17	17	17
ICICI Bank	74.2	BUY	21	17	15	13	2.9	2.4	2.1	16	1.9	2.0	2.0	18	18	18
Kotak Mahindra Bank	42.4	SELL	(13)	26	24	21	3.2	2.8	2.5	11	2.3	2.1	2.1	13	12	13
Axis Bank	32.5	BUY	34	12	11	9	1.9	1.7	1.4	14	1.8	1.7	1.8	18	16	17
				17	**15**	**13**	**2.5**	**2.2**	**1.9**	**15**	**1.8**	**1.8**	**1.9**	**16**	**16**	**16**
Mid-size Banks																
AU SFB	5.1	SELL	(12)	36	27	22	4.8	3.4	3.0	28	1.5	1.5	1.5	13	13	15
Bandhan Bank	4.6	SELL	(34)	14	11	10	1.9	1.6	1.4	21	1.7	1.8	1.8	14	15	16
Federal Bank	3.5	BUY	33	10	9	7	1.3	1.2	1.0	20	1.1	1.1	1.2	14	14	15
IndusInd Bank*	10.6	NA	NA	12	9.7	8.3	1.6	1.4	1.2	19	1.7	1.8	1.8	14	15	16
IDFC First Bank*	4.4	NA	NA	19	13	10	1.5	1.4	1.2	35	1.0	1.1	1.3	9	11	13
				12	**10**	**8**	**1.4**	**1.2**	**1.0**	**22**	**1.5**	**1.5**	**1.5**	**13**	**14**	**14**

*Source: Company, Ambit Capital research, * Bloomberg estimates, n.m.: Not meaningful, DNA: Does not available/applicable, Prices as on 6th Mar, 2023*

Why preference for SBI Cards over Bajaj Finance?

We have BUY rating on SBI Cards despite expensive valuations. Our preference for SBI Cards over BAF is a function of following factors:

Exhibit 107: We prefer SBI Cards over Bajaj Finance

Long-term value factors	BAF	SBI Cards
Sector growth	▪ At this size, BAF is operating in a segment which is expected to grow at ~15% CAGR over FY23-33E.	▪ Given lower penetration of credit cards in India, credit card industry has potential to grow at 20% CAGR over the next decade.
Market share in the industry	▪ Given an NBFC and increasing competition from banks, growing at a significantly higher rate than industry would be a challenge.	▪ Given SBI's customer base and distribution prowess, SBI Cards has potential to grow at a faster pace than industry.
Long term ROA/ROE	▪ With scale and increasing competition, RoE for BAF should not be more than banks ~18%.	▪ Given the structure of the industry, RoE for SBI Cards should be >20% in the medium term.
Role of cost of funds liabilities	▪ Given NII being 80% of topline, cost of funds would play a bigger role in scale and profitability.	▪ Given NII being 50% of topline, cost of funds would play a relatively lesser role in scale and profitability for SBI Cards.
Diversification	▪ Given product diversification, BAF should have lesser volatility in earnings.	▪ Given single-product company, SBI Cards is prone to vagaries of card business.
Key men risk	▪ Current CEO, Mr. Rajeev Jain has been instrumental in success of BAF over the last 14 years and hence it is uncertain how the company will perform once he departs.	▪ SBI Cards has seen multiple CEO changes over the last decade without any impact on business; so less prone to key men risk.
Ability to attract and retain talent	▪ Given higher ESOP pool (Rs37bn at current price) and diversified product mix, BAF has better ability to attract and retain talent.	▪ Given lower ESOP pool (Rs7bn at current price) and single-product focus, SBI Cards has relatively lesser ability to attract and retain talent.
FY24 - P/E and P/B	▪ BAF is trading at 28x and 5.7x FY24 P/E and P/B, respectively.	▪ SBICARD is trading at 22x and 5.8x FY24 P/E and P/B, respectively.

Source: Company, Ambit Capital research

Catalysts & Risks

Catalysts

Slowdown in growth: Higher valuation of BAF is building >25% growth for next decade. Any signs of growth slowing would be a negative catalyst for the stock. We saw glimpses of it in Dec'22 quarter when stock corrected ~7% despite 26% YoY loan growth during the quarter**.** We expect this to be a major negative catalyst in FY24/FY25 where we expect loan growth to fall <25%.

Contraction in NIM: ~90bps NIM contraction in over FY23-25 driven by: i) rising cost of funds, and ii) limited pick-up in yields given incremental growth from low yielding mortgages and higher competitive intensity in retail/MSME from banks.

Risks

Incremental growth coming from high yielding loans: Our estimate of NIM contraction is based on assumption that incremental growth would come from low yielding mortgages and higher competition from banks. However, incremental growth coming from high yielding loans can result in BAF maintaining its NIMs.

BAF finding new avenues of funding and growth: Our current view on growth slowing down for BAF is based on current lending landscape in India. BAF finding some new avenues for growth which we can't think as of now is a big risk to our SELL thesis.

Exhibit 108: Explanation of our flags on the cover page

Segment	Score	Comments
Balance sheet risks	GREEN	We do not find anything unusual in the company's accounting policies and believe reported numbers are a true reflection of performance.
Predictability	GREEN	BAF has shown consistent performance in terms of NIM and asset quality.
Earnings Momentum	GREEN	In the past six months, consensus has upgraded its FY24/25E EPS estimates by 7%/6%.

Source: Ambit Capital research

Financials - Consolidated

Balance Sheet

Year to March (Rs bn)	FY21	FY22	FY23E	FY24E	FY25E
Networth	369	437	536	652	785
Borrowings	1,316	1,652	2,084	2,569	3,083
Other Liabilities	30	36	48	68	79
Total Liabilities	**1,715**	**2,125**	**2,669**	**3,289**	**3,947**
Cash & Balances with RBI & Banks	206	159	193	238	286
Loans	1,467	1,914	2,415	2,977	3,572
Fixed Assets	14	18	22	27	32
Other Assets	29	34	39	48	57
Total Assets	**1,715**	**2,125**	**2,669**	**3,289**	**3,947**

Source: Company, Ambit Capital research

Income Statement

Year to March (Rs bn)	FY21	FY22	FY23E	FY24E	FY25E
Interest Income	233	273	361	455	548
Interest Expense	94	97	129	181	232
Net Interest Income	**139**	**175**	**232**	**273**	**316**
Total Non-Interest Income	34	44	53	66	80
Total Income	**173**	**219**	**285**	**340**	**396**
Total Operating Expenses	58	76	101	121	143
Pre Provisioning Profits	**115**	**143**	**184**	**218**	**253**
Provisions	60	48	31	38	45
PBT	55	95	153	180	208
Tax	16	25	40	47	54
PAT	**39**	**70**	**114**	**133**	**154**

Source: Company, Ambit Capital research

Key Ratios

Year to March	FY21	FY22	FY23E	FY24E	FY25E
AUM growth (%)	3.9%	29.1%	25.4%	22.6%	20.0%
Dil. Consol. EPS growth (%)	-18.0%	58.6%	62.2%	17.3%	15.6%
Cost/Income ratio (%)	33.6%	34.6%	35.3%	35.8%	36.2%
Opex (% of AAUM)	3.9%	4.3%	4.5%	4.4%	4.3%
Gross NPAs (%)	1.8%	1.6%	1.2%	1.4%	1.3%
Credit costs (% of AAUM)	4.0%	2.7%	1.4%	1.4%	1.3%
Provision Coverage (%)	58.4%	58.0%	65.0%	65.0%	65.0%
Capital adequacy (%)	28.3%	27.2%	26.2%	25.9%	26.1%
Tier-1 (%)	25.1%	24.8%	24.2%	24.4%	24.8%

Source: Company, Ambit Capital research

Valuations

Year to March	FY21	FY22	FY23E	FY24E	FY25E
ROA (%)	2.3%	3.5%	4.6%	4.4%	4.2%
ROE (%)	11.3%	17.4%	23.4%	22.4%	21.4%
Cons. diluted EPS	73	116	187	220	254
Cons. BVPS	687	720	884	1075	1294
P/E	84.1	53.0	32.7	27.9	24.2
P/BV	8.9	8.5	6.9	5.7	4.7
Dividend yield (%)	0.2%	0.3%	0.4%	0.5%	0.6%

Source: Company, Ambit Capital research

Institutional Equities Team

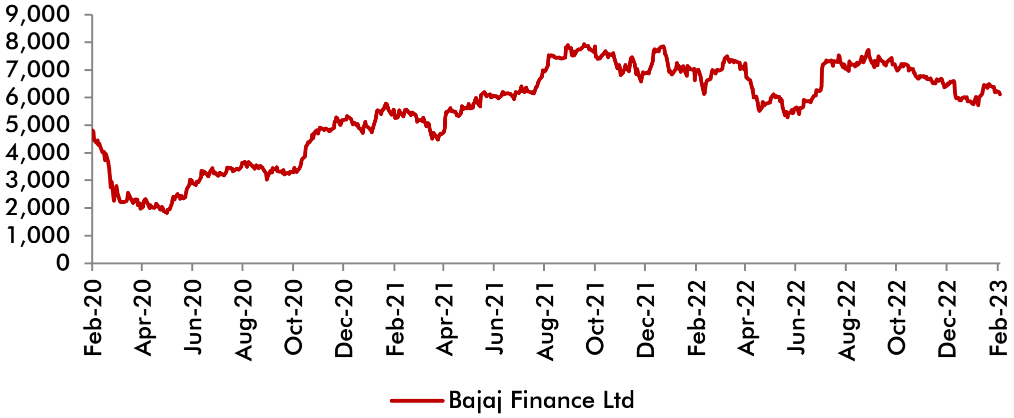
Research Analysts

Name	Industry Sectors	Desk-Phone	E-mail
Nitin Bhasin - Head of Research	Strategy / Accounting / Home Building / Consumer Durables	(022) 66233241	nitin.bhasin@ambit.co
Alok Shah, CFA	Consumer Staples / Consumer Discretionary	(022) 66233259	alok.shah@ambit.co
Amar Kedia	Capital Goods / Infrastructure	(022) 66233212	amar.kedia@ambit.co
Ashwin Mehta, CFA	Technology	(022) 66233295	ashwin.mehta@ambit.co
Bharat Arora, CFA	Strategy	(022) 66233278	bharat.arora@ambit.co
Dhruv Jain	Mid-Caps / Home Building / Consumer Durables	(022) 66233177	dhruv.jain@ambit.co
Eashaan Nair	Economy / Strategy	(022) 66233033	eashaan.nair@ambit.co
Gaurav Jhunjhunuwala	Media / Telecom / Oil & Gas	(022) 66233227	gaurav.jhunjhunuwala@ambit.co
Jaiveer Shekhawat	Mid/Small-Caps	(022) 66233021	jaiveer.shekhawat@ambit.co
Karan Khanna, CFA	Mid/Small-Caps / Hotels / Real Estate / Aviation	(022) 66233251	karan.khanna@ambit.co
Karan Kokane, CFA	Automobiles / Auto Ancillaries	(022) 66233028	karan.kokane@ambit.co
Kumar Saumya	Chemicals	(022) 66233242	kumar.saumya@ambit.co
Omnath Sinh	Capital Goods / Infrastructure	(022) 66233212	omnath.sinh@ambit.co
Pankaj Agarwal, CFA	Banking / Financial Services	(022) 66233206	pankaj.agarwal@ambit.co
Parth Dalia	Healthcare	(022) 66233041	parth.dalia@ambit.co
Parth Gupta	Hotels / Real Estate	(022) 66233251	parth.gupta@ambit.co
Parth Majithia	Strategy / Forensic Accounting	(022) 66233149	parth.majithia@ambit.co
Prabal Gandhi	Banking / Financial Services	(022) 66233206	prabal.gandhi@ambit.co
Pratik Matkar	Banking / Financial Services	(022) 66233252	pratik.matkar@ambit.co
Prashant Nair, CFA	Healthcare	(022) 66233041	prashant.nair@ambit.co
Raghav Garg, CFA	Banking / Financial Services	(022) 66233206	raghav.garg@ambit.co
Rajat Sonika	Banking / Insurance	(022) 66233050	rajat.sonika@ambit.co
Satyadeep Jain, CFA	Metals & Mining / Cement	(022) 66233246	satyadeep.jain@ambit.co
Saurabh Jain	Automobiles / Auto Ancillaries	(022) 66233142	saurabh.jain@ambit.co
Sumit Shekhar	Economy / Strategy	(022) 66233229	sumit.shekhar@ambit.co
Supratim Datta	Banking / Insurance	(022) 66233252	supratim.datta@ambit.co
Videesha Sheth	Consumer Discretionary	(022) 66233264	videesha.sheth@ambit.co
Vinit Powle	Strategy / Forensic Accounting	(022) 66233149	vinit.powle@ambit.co
Viraj Dhandhukiya	Strategy	(022) 66233278	viraj.dhandhukiya@ambit.co
Vivekanand Subbaraman, CFA	Media / Telecom / Oil & Gas	(022) 66233261	vivekanand.s@ambit.co
Yash Joglekar	Technology	(022) 66233027	yash.joglekar@ambit.co

Sales

Name	Regions	Desk-Phone	E-mail
Dhiraj Agarwal - MD & Head of Sales	India	(022) 66233253	dhiraj.agarwal@ambit.co
Bhavin Shah	India	(022) 66233186	bhavin.shah@ambit.co
Dharmen Shah	India / Asia	(022) 66233289	dharmen.shah@ambit.co
Abhishek Raichura	UK & Europe	(022) 66233287	abhishek.raichura@ambit.co
Pranav Verma	Asia	(022) 66233214	pranav.verma@ambit.co
Shiva Kartik	India	(022) 66233299	shiva.kartik@ambit.co
Soumya Agarwal	India	(022) 66233062	soumya.agarwal@ambit.co
USA / Canada			
Sean Rodrigues	Americas	(022) 66233211	sean.rodrigues@ambit.co
Singapore			
Sundeep Parate	Singapore	+65 6536 1918	sundeep.parate@ambit.co
Pooja Narayanan	Singapore	+65 6536 1918	pooja.narayanan@ambit.co
Production			
Sajid Merchant	Production	(022) 66233247	sajid.merchant@ambit.co
Sharoz G Hussain	Production	(022) 66233183	sharoz.hussain@ambit.co
Jestin George	Editor	(022) 66233272	jestin.george@ambit.co
Richard Mugutmal	Editor	(022) 66233273	richard.mugutmal@ambit.co
Nikhil Pillai	Database	(022) 66233265	nikhil.pillai@ambit.co
Amit Tembhurnikar	Database	(022) 66233265	amit.tembhurnikar@ambit.co

Bajaj Finance Ltd (BAF IN, BUY)



Source: Bloomberg, Ambit Capital research

Explanation of Investment Rating - Our target prices are with a 12-month perspective. Returns stated are our internal benchmark	
Investment Rating	**Expected return (over 12-month)**
BUY	We expect this stock to deliver more than 10% returns over the next12 month
SELL	We expect this stock to deliver less than or equal to 10 % returns over the next 12 months
UNDER REVIEW	We have coverage on the stock but we have suspended our estimates, TP and recommendation for the time being NOT
NOT RATED	We do not have any forward-looking estimates, valuation, or recommendation for the stock.
POSITIVE	We have a positive view on the sector and most of stocks under our coverage in the sector are BUYs
NEGATIVE	We have a negative view on the sector and most of stocks under our coverage in the sector are SELLs
NO STANCE	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation

Note: At certain times the Rating may not be in sync with the description above as the stock prices can be volatile and analysts can take time to react to development.

Disclaimer

This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Ambit Capital Private Ltd. Ambit Capital Private Ltd. research is disseminated and available primarily electronically, and, in some cases, in printed form. The following Disclosures are being made in compliance with the SEBI (Research Analysts) Regulations, 2014 (herein after referred to as the Regulations).

Disclosures

- Ambit Capital Private Limited ("Ambit Capital or Ambit") is a SEBI Registered Research Analyst having registration number INH000000313. Ambit Capital, the Research Entity (RE) as defined in the Regulations, is also engaged in the business of providing Stock broking Services, Portfolio Management Services, Depository Participant Services, distribution of Mutual Funds and various financial products. Ambit Capital is a subsidiary company of Ambit Private Limited. The details of associate entities of Ambit Capital are available on its website.
- Ambit Capital makes its best endeavor to ensure that the research analyst(s) use current, reliable, comprehensive information and obtain such information from sources which the analyst(s) believes to be reliable. However, such information has not been independently verified by Ambit Capital and/or the analyst(s) and no representation or warranty, express or implied, is made as to the accuracy or completeness of any information obtained from third parties. The information, opinions, views expressed in this Research Report are those of the research analyst as at the date of this Research Report which are subject to change and do not represent to be an authority on the subject. Ambit Capital and its affiliates/ group entities may or may not subscribe to any and/ or all the views expressed herein and the statements made herein by the research analyst may differ from or be contrary to views held by other businesses within the Ambit group.
- This Research Report should be read and relied upon at the sole discretion and risk of the recipient. If you are dissatisfied with the contents of this Research Report or with the terms of this Disclaimer, your sole and exclusive remedy is to stop using this Research Report and Ambit Capital or its affiliates shall not be responsible and/ or liable for any direct/consequential loss howsoever directly or indirectly, from any use of this Research Report.
- If this Research Report is received by any client of Ambit Capital or its affiliates, the relationship of Ambit Capital/its affiliate with such client will continue to be governed by the existing terms and conditions in place between Ambit Capital/ such affiliates and the client.
- This Research Report is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied in whole or in part, for any purpose. Neither this Research Report nor any copy of it may be taken or transmitted or distributed, directly or indirectly within India or into any other country including United States (to US Persons), Canada or Japan or to any resident thereof. The distribution of this Research Report in other jurisdictions may be strictly restricted and/ or prohibited by law or contract, and persons into whose possession this Research Report comes should aware of and take note of such restrictions.
- Ambit Capital declares that neither its activities were suspended nor did it default with any stock exchange with whom it is registered since inception. Ambit Capital has not been debarred from doing business by any Stock Exchange, SEBI, Depository or other Regulated Authorities, nor has the certificate of registration been cancelled by SEBI at any point in time.
- Apart from the case of Manappuram Finance Ltd. where Ambit Capital settled the matter with SEBI without accepting or denying any guilt, there is no material disciplinary action that has been taken by any regulatory authority impacting research activities of Ambit Capital.
- A graph of daily closing prices of securities is available at www.nseindia.com and www.bseindia.com

Disclosure of financial interest and material conflicts of interest

- Ambit Capital, its associates/group company, Research Analyst(s) or their relative may have any financial interest in the subject company. Ambit Capital and/or its associates/group companies may have actual/beneficial ownership of 1% or more interest in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Ambit Capital and its associate company (ies), may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as an advisor or lender/borrower to such company (ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. However the same shall have no bearing whatsoever on the specific recommendations made by the Analyst(s), as the recommendations made by the Analyst(s) are completely independent of the views of the associates of Ambit Capital even though there might exist an apparent conflict in some of the stocks mentioned in the research report. Ambit Capital and/or its associates/group company may have received any compensation from the subject company in the past 12 months and/or Subject Company is or was a client during twelve months preceding the date of distribution of the research report.
- In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, Ambit Capital or any of its associates/group company or Research Analyst(s) may have:
  - managed or co-managed public offering of securities for the subject company of this research report,
  - received compensation for investment banking or merchant banking or brokerage services from the subject company,
  - received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report.
  - received any compensation or other benefits from the subject company or third party in connection with the research report.
- Ambit Capital and / or its associates/group company do and seek to do business including investment banking with companies covered in its research reports. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Additional Disclaimer for Canadian Persons

About Ambit Capital:

- Ambit Capital is not registered in the Province of Ontario and /or Province of Québec to trade in securities and/or to provide advice with respect to securities.
- Ambit Capital's head office or principal place of business is located in India.
- All or substantially all of Ambit Capital's assets may be situated outside of Canada.
- It may be difficult for enforcing legal rights against Ambit Capital because of the above.
- Name and address of Ambit Capital's agent for service of process in the Province of Ontario is: Torys LLP, 79 Wellington St. W., 30th Floor, Box 270, TD South Tower, Toronto, Ontario M5K 1N2 Canada.
- Name and address of Ambit Capital's agent for service of process in the Province of Québec is Torys Law Firm LLP, 1 Place Ville Marie, Suite 1919 Montréal, Québec H3B 2C3 Canada.

About Ambit America Inc.:

- Ambit America Inc. is not registered in Canada
- Ambit America Inc. is resident and registered in the United States.
- The name and address of the Agent for service in Quebec is: Lavery, de Billy, L.L.P., Bureau 4000, One Place Ville Marie, Montreal, Quebec, Canada H3B 4M4.
- The name and address of the Agent for service in Toronto is: Sutton Boyce Gilkes Regulatory Consulting Group Inc., 120 Adelaide Street West, Suite 2500, Toronto, ON Canada M5H 1T1.
- A client may have difficulty enforcing legal rights against Ambit America Inc. because it is resident outside of Canada and all substantially all of its assets may be situated outside of Canada.

Additional Disclaimer for Singapore Persons

- Ambit Singapore Pte. Limited is a holder of Capital Market services license and an exempt financial adviser in Singapore, as per the approved agreement under Paragraph 9 of Third Schedule of Securities and Futures Act (CAP 289) and Paragraph 11 of First Schedule of Financial Advisors Act (CAP 110) provided to Ambit Singapore Pte. Limited by Monetary Authority of Singapore. In Singapore, Ambit Capital distributes research reports.
- Persons in Singapore should contact either Ambit Capital or Ambit Singapore Pte. Limited in respect of any matter arising from, or in connection with this report/publication/communication. This report is distributed solely to persons who qualify as "Institutional Investors", of which some of whom may consist of "Accredited Institutional Investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore. Accordingly, if a Singapore person is not or ceases to be such an institutional investor, such Singapore Person must immediately discontinue any use of this Report and inform either Ambit Capital or Ambit Singapore Pte. Limited.

Additional Disclaimer for UK Persons

- All of the recommendations and views about the securities and companies in this report accurately reflect the personal views of the research analyst named on the cover. No part of this research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report. This report may not be reproduced, redistributed or copied in whole or in part for any purpose.
- This report is a marketing communication and has been prepared by Ambit Capital Private Ltd. of Mumbai, India ("Ambit Capital"). Ambit is regulated by the Securities and Exchange Board of India and is registered as a Research Entity under the SEBI (Research Analysts) Regulations, 2014. Ambit is an appointed representative of Aldgate Advisors Limited which is authorized and regulated by the Financial Conduct Authority whose registered office is at 16 Charles II Street, London, SW1Y 4NW.
- In the UK, this report is directed at and is for distribution only to persons who (i) fall within Article 19(5) (persons who have professional experience in matters relating to investments) or Article 49(2)(a) to (d) (high net worth companies, unincorporated associations etc.) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (as amended).
- Ambit Capital is not a US registered broker-dealer. Transactions undertaken in the US in any security mentioned herein must be effected through a US-registered broker-dealer, in conformity with SEC Rule 15a-6.
- Neither this report nor any copy or part thereof may be distributed in any other jurisdictions where its distribution may be restricted by law and persons into whose possession this report comes should inform them about, and observe any such restrictions. Distribution of this report in any such other jurisdictions may constitute a violation of UK or US securities laws, or the law of any such other jurisdictions.
- This report does not constitute an offer or solicitation to buy or sell any securities referred to herein. It should not be so construed, nor should it or any part of it form the basis of, or be relied on in connection with, any contract or commitment whatsoever. The information in this report, or on which this report is based, has been obtained from publicly available sources that Ambit believes to be reliable and accurate. However, it has not been prepared in accordance with legal requirements designed to promote the independence of investment research. It has also not been independently verified and no representation or warranty, express or implied, is made as to the accuracy or completeness of any information obtained from third parties.
- The information or opinions are provided as at the date of this report and are subject to change without notice. The information and opinions provided in this report take no account of the investors' individual circumstances and should not be taken as specific advice on the merits of any investment decision. Investors should consider this report as only a single factor in making any investment decisions. Further information is available upon request. No member or employee of Ambit accepts any liability whatsoever for any direct or consequential loss howsoever arising, directly or indirectly, from any use of this report or its contents.
- The value of any investment made at your discretion based on this Report, or income therefrom, maybe affected by changes in economic, financial and/or political factors and may go down as well as go up and you may not get back the original amount invested. Some securities and/or investments involve substantial risk and are not suitable for all investors.
- Ambit and its affiliates and their respective officers directors and employees may hold positions in any securities mentioned in this Report (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). Ambit and its affiliates may from time to time render advisory and other services, solicit business to companies referred to in this Report and may receive compensation for the same. Ambit has a restrictive policy relating to personal dealing. Ambit has controls in place to manage the risks related to such. An outline of the general approach taken in relation to conflicts of interest is available upon request.
- Ambit and its affiliates may act as a market maker or risk arbitrator or liquidity provider or may have assumed an underwriting commitment in the securities of companies discussed in this Report (or in related investments) or may sell them or buy them from clients on a principal to principal basis or may be involved in proprietary trading and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.
- Ambit may sell or buy any securities or make any investment which may be contrary to or inconsistent with this Report and are not subject to any prohibition on dealing. By accepting this report you agree to be bound by the foregoing limitations. In the normal course of Ambit and its affiliates' business, circumstances may arise that could result in the interests of Ambit conflicting with the interests of clients or one client's interests conflicting with the interest of another client. Ambit makes best efforts to ensure that conflicts are identified, managed and clients' interests are protected. However, clients/potential clients of Ambit should be aware of these possible conflicts of interests and should make informed decisions in relation to Ambit services.

Additional Disclaimer for U.S. Persons

THIS RESEARCH REPORT IS BEING DISTRIBUTED IN THE US TO MAJOR INSTITUTIONAL INVESTORS UNDER RLE 15a-6 AND UNDER A GLOBAL BRAND OF AMBIT AMERICA AND AMBIT CAPITAL PRIVATE LTD.

- The Ambit Capital research report is solely a product of Ambit Capital Private Ltd. and may be used for general information only. The legal entity preparing this research report is not registered as a broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and/or the independence of research analysts.
- Ambit Capital is the employer of the research analyst(s) who has prepared the research report.
- Any subsequent transactions in securities discussed in the research reports should be effected through Ambit America Inc. ("Ambit America").
- Ambit America Inc. does not accept or receive any compensation of any kind directly from US Institutional Investors for the dissemination of the Ambit Capital research reports. However, Ambit Capital Private Ltd. has entered into an agreement with Ambit America Inc. which includes payment for sourcing new MUSSI and service existing clients based out of USA.
- Analyst(s) preparing this report are resident outside the United States and are not associated persons or employees of any US regulated broker-dealer. Therefore the analyst(s) may not be subject to Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by the research analyst.
- In the United States, this research report is available for distribution to major U.S. institutional investors, as defined in Rule 15a – 6 under the Securities Exchange Act of 1934. Additionally, this research report is available to a limited number of individuals as Globally Branded research, as defined in FINRA Rule 2241. This research report is distributed in the United States by Ambit America Inc., a U.S. registered broker and dealer and a member of FINRA. Ambit America Inc., a US registered broker-dealer, accepts responsibility for this research report and its dissemination in the United States.
- This Ambit Capital research report is not intended for any other persons in the USA. All major U.S. institutional investors or persons outside the United States, having received this Ambit Capital research report shall neither distribute the original nor a copy to any other person in the United States. In order to receive any additional information about or to effect a transaction in any security or financial instrument mentioned herein, please contact a registered representative of Ambit America Inc., by phone at 646 793 6001 or by mail at 370, Lexington Avenue, Suite 803, New York, 10017. This material should not be construed as a solicitation or recommendation to use Ambit Capital to effect transactions in any security mentioned herein.
- This document does not constitute an offer of, or an invitation by or on behalf of Ambit Capital or its affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which Ambit Capital or its Affiliates consider to be reliable. None of Ambit Capital accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.
- Ambit America Inc. or its affiliates or the principals or employees of Ambit Group may have or have had positions, may "beneficially own" as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of the equity securities or may conduct or may have conducted market-making activities or otherwise act or have acted as principal in transactions in any of these securities or instruments referred to herein.
- Ambit America Inc. or its affiliates or the principals or employees of Ambit Group may have managed or co-managed a public offering of securities or received compensation for investment banking services or expects to receive or intends to seek compensation for investment banking or consulting services or serve or have served as a director or a supervisory board member of a company referred to in this research report.
- As of the date of this research report Ambit America Inc. does not make a market in the security reflected in this research report.

Analyst(s) Certification

- The analyst(s) authoring this research report hereby certifies that the views expressed in this research report accurately reflect such research analyst's personal views about the subject securities and issuers and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.
- The analyst (s) has/have not served as an officer, director or employee of the subject company in the last 12 months period ending on the last day of the month immediately preceding the date of publication of the research report.
- The analyst(s) does not hold one percent or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report.
- Research Analyst views on Subject Company may vary based on fundamental research and technical research. Proprietary trading desk of Ambit Capital or its associates/group companies maintains arm's length distance with the research team as all the activities are segregated from Ambit Capital research activity and therefore it can have an independent views with regards to Subject Company for which research team have expressed their views.

Registered Office Address: Ambit Capital Private Limited, 449, Ambit House, Senapati Bapat Marg, Lower Parel, Mumbai-400013

Compliance Officer Details: Sanjay Shah, Email id: compliance@ambit.co, Contact Number: 91 22 68601965

Other registration details of Ambit Capital: SEBI Stock Broking registration number INZ000259334 (Trading Member of BSE and NSE); SEBI Depository Participant registration number IN-DP-CDSL-374-2006; SEBI Portfolio Managers registration number INP000002221, AMFI registration number ARN 36358.

AMBIT Acumen at work | CELEBRATING 25 YEARS OF ACUMEN