

26 April 2023

## Bajaj Finance

*Healthy quarter; maintaining a Buy*

Driven by healthy, 30.2% y/y, NII growth, Bajaj Finance's Q4 FY23 net profit rose 30% y/y to Rs31.5bn (slightly above expectations). We tweak our FY24e/FY25e on slightly lower growth expectations and NIM assumptions. With many levers of loan growth, high NIM and steady asset quality, we reiterate our Buy, at a revised target price of Rs8,123 (6x FY25e BV), despite premium valuations.

**Healthy AUM growth, driven by consumer durables, commercial lending.** Driven by the broadening product portfolio and deeper penetration, the company's assets under management increased a healthy 26% y/y, led by all-round growth. The strategy is delivering figures in line with management targets. The focus for the coming year will be deepening penetration in payments. Niche financing products, a strong online presence and deepening penetration in rural markets are likely to aid the expansion of loans at a 26% CAGR over FY23–FY25e.

**NIM, productivity hold up.** NIM during the quarter held up despite the increase in interest rates. We factor in a 30bp NIM decline in FY24 to 11.2%, building in a faster rise in the cost of funds. At 34.1%, cost-income has improved during the quarter with commission and fee expenses lagging asset growth. We expect stable cost-income over FY23–FY25.

**Valuation.** At our target price, BAF will trade at 7.4x FY24e BV and 6x FY25e BV. **Risks:** Higher slippages, lower-than-expected loan growth, key-man risk.

Key financials (YE Mar)	FY21	FY22	FY23e	FY24e	FY25e
Net interest income (Rs m)	164,000	213,820	273,314	334,996	416,757
PPoP (Rs m)	119,892	143,586	187,176	228,939	286,474
Provisions (Rs m)	59,969	48,548	31,897	43,912	58,123
PAT (Rs m)	44,198	70,282	115,078	136,550	168,523
EPS (Rs.)	73	116	190	225	277
NIM (%)	10.0	11.4	11.4	11.1	11.3
Cost-to-income	30.2	34.2	35.1	34.9	34.2
RoE (%)	12.8	17.4	23.5	22.6	22.7
RoA (%)	2.6	3.7	4.7	4.4	4.5
AUM growth (%)	3.9	29.1	25.3	26.1	25.8
GNPA (%)	1.7	1.5	1.5	1.5	1.5
CRAR	28.3	27.2	26.5	24.3	23.6
P/E (x)	82.4	52.0	31.8	26.9	21.9
P/BV (x)	9.9	8.4	6.7	5.5	4.5
P/ABV (x)	10.0	8.5	6.8	5.6	4.6

Source: Company, Anand Rath Research

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Rating: Buy

Target Price (12-mth): Rs.8,123

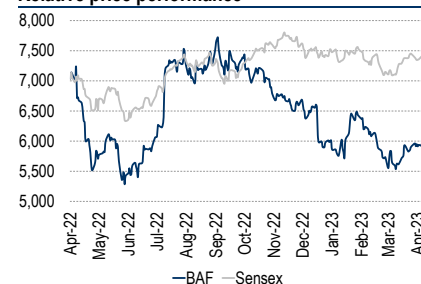
Share Price: Rs.6,056

Key data	BAF IN / BJFN.BO
52-week high / low	Rs.7,778 / 5,220
Sensex / Nifty	60301 / 17814
3-m average volume	\$82m
Market cap	Rs.3,666bn / \$44,839.9m
Shares outstanding	605m

Shareholding pattern (%)	Mar'23	Dec'22	Sep'22
Promoters	55.9	55.9	55.9
- of which, Pledged	-	-	-
Free float	43.9	43.9	43.9
- Foreign institutions	19.2	19.9	20.5
- Domestic institutions	13.0	12.4	12.2
- Public	11.7	11.6	11.3

Estimates revision (%)	FY24e	FY25e
NII	(0.0)	(0.5)
PPOP	(0.8)	(3.6)
PAT	(1.0)	(4.5)

### Relative price performance



Source: Bloomberg

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (Rs m)**

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Net Interest Income	164,000	213,820	273,314	334,996	416,757
growth (%)	1.8	30.4	27.8	22.6	24.4
Non Interest Income	7,852	4,373	15,148	16,663	18,329
<b>Total income</b>	<b>171,852</b>	<b>218,193</b>	<b>288,462</b>	<b>351,659</b>	<b>435,086</b>
Total Inc growth (%)	2.4	27.0	32.2	21.9	23.7
Operating expenses	51,960	74,607	101,286	122,720	148,611
of which emp. benefit exp.	24,987	35,897	50,494	63,622	79,528
<b>PPOP</b>	<b>119,892</b>	<b>143,586</b>	<b>187,176</b>	<b>228,939</b>	<b>286,474</b>
PPOP growth (%)	6.3	19.8	30.4	22.3	25.1
Provisions	59,969	48,548	31,897	43,912	58,123
<b>PBT</b>	<b>59,923</b>	<b>95,038</b>	<b>155,279</b>	<b>185,027</b>	<b>228,351</b>
Tax	15,724	24,756	40,202	48,477	59,828
<b>PAT</b>	<b>44,198</b>	<b>70,282</b>	<b>115,078</b>	<b>136,550</b>	<b>168,523</b>
PAT growth (%)	(16.0)	59.0	63.7	18.7	23.4

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (Rs m)**

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Share Capital	1,203	1,207	1,209	1,213	1,217
Other Equity	367,981	435,920	542,511	664,506	817,210
<b>Net Worth</b>	<b>369,184</b>	<b>437,127</b>	<b>543,720</b>	<b>665,719</b>	<b>818,427</b>
Borrowings	1,316,335	1,652,319	2,173,357	2,680,051	3,292,635
Growth (%)	1.4	25.5	31.5	23.3	22.9
Other liabilities	29,185	35,608	35,210	45,773	59,505
<b>Total Liabilities</b>	<b>1,714,704</b>	<b>2,125,054</b>	<b>2,752,287</b>	<b>3,391,544</b>	<b>4,170,567</b>
Cash & Cash Equivl.	21,643	36,803	43,045	52,475	61,505
Investments	183,969	122,455	229,007	206,106	195,801
Loans	1,466,869	1,914,233	2,430,886	3,062,916	3,828,645
Growth (%)	3.8	30.5	27.0	26.0	25.0
Other assets	42,223	51,563	49,349	70,047	84,615
<b>Total Assets</b>	<b>1,714,704</b>	<b>2,125,054</b>	<b>2,752,287</b>	<b>3,391,544</b>	<b>4,170,567</b>
<b>AUM</b>	<b>1,529,470</b>	<b>1,974,520</b>	<b>2,473,790</b>	<b>3,120,045</b>	<b>3,925,492</b>
<b>RWA</b>	<b>1,289,570</b>	<b>1,588,032</b>	<b>2,309,341</b>	<b>3,124,174</b>	<b>3,981,791</b>

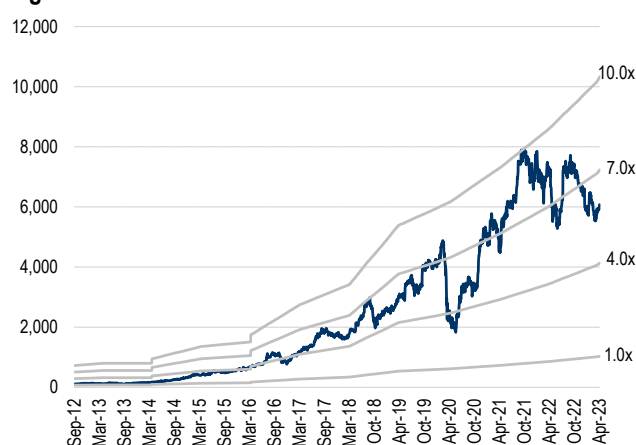
Source: Company, Anand Rathi Research

**Fig 3 – Ratio analysis (%)**

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
NIMs(%)	10.0	11.4	11.4	11.1	11.3
Cost to Income (%)	30.2	34.2	35.1	34.9	34.2
Credit Cost (%)	4.1	2.9	1.5	1.6	1.7
ROA (%)	2.6	3.7	4.7	4.4	4.5
ROE(%)	12.8	17.4	23.5	22.6	22.7
GNPA (%)	1.7	1.5	1.5	1.5	1.5
NNPA (%)	0.7	0.7	0.7	0.7	0.7
RWA/Assets (%)	75.2	74.7	83.9	92.1	95.5
CRAR (%)	28.3	27.2	26.5	24.3	23.6
Tier 1(%)	25.1	24.7	23.5	21.3	20.6
EPS (Rs)	73	116	190	225	277
BVPS (Rs)	614	725	900	1,098	1,345
ABVPS (Rs)	605	714	886	1,080	1,323
Dividend Yield(%)	0.2	0.3	0.4	0.4	0.4
P/E (x)	82.4	52.0	31.8	26.9	21.9
P/B (x)	9.9	8.4	6.7	5.5	4.5
P/ABV (x)	10.0	8.5	6.8	5.6	4.6

Source: Company, Anand Rathi Research

**Fig 4 – Price-to-book band**



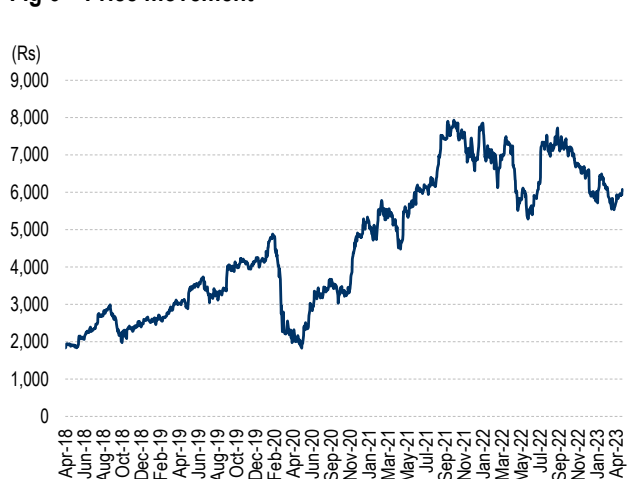
Source: Bloomberg

**Fig 5 – One-year-forward price-to-book-value**



Source: Bloomberg

**Fig 6 – Price movement**



Source: Bloomberg

## Earnings call key takeaways

- 11m-12m customer additions expected for FY24.
- Should comfortably see FY24 20-25% growth.
- Number of loans expected to be dispensed in FY24: 35m.
- Merchant QRs – 2.5m-3m to be deployed for FY24.
- Don't expect product mix to change in any quarter with +/-1% as current mix delivers optimum risk management.
- As the company likes to build businesses rather than acquire them, there are organic plans to venture into microfinance and 4W finance. These businesses would not contribute materially to AUM for at least the next three years.
- Company has a 7-8% market share of unsecured loans.
- Market leader by a wide margin in subvention, with a market share of over 50% by value.
- Gradual NIM moderation of 40-50bps expected in FY24, part of which will be mitigated opex and credit cost matrix. Should not have an impact on RoA of more than 10-15bps. This expectation of moderation in NIM factors in one more rate hike by the RBI.
- India well placed to grow more than 6% and overall consumer credit data looks very strong.
- In housing loans, the affordable segment (~Rs5m ticket size) has seen slowness in uptick due to higher interest rates and inflation. While housing stocks for the industry is at an all-time low, demand in the luxury segment is still strong.

## Key highlights

### Quarterly snapshot

**Fig 7 – Income statement**

(Rs m)	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23
Income from operations	82,465	89,385	95,807	103,807	109,912
Interest Expense	25,626	26,451	29,714	33,512	35,920
<b>Net Interest Income</b>	<b>56,839</b>	<b>62,934</b>	<b>66,093</b>	<b>70,295</b>	<b>73,992</b>
growth (%)	27.6	47.1	31.6	25.3	30.2
Other income	3,838	3,442	3,916	4,052	3,720
<b>Total income</b>	<b>60,677</b>	<b>66,376</b>	<b>70,009</b>	<b>74,347</b>	<b>77,712</b>
Total Inc growth (%)	30.2	47.8	31.2	23.8	28.1
Operating expenses	21,006	23,801	25,144	25,818	26,522
of which emp. benefit exp.	10,202	11,834	12,393	12,856	13,411
<b>PPOP</b>	<b>39,671</b>	<b>42,575</b>	<b>44,865</b>	<b>48,529</b>	<b>51,190</b>
PPOP growth (%)	29.9	36.6	35.8	23.8	29.0
Provisions	7,016	7,547	7,342	8,413	8,594
<b>PBT</b>	<b>32,655</b>	<b>35,028</b>	<b>37,523</b>	<b>40,116</b>	<b>42,595</b>
Tax	8,460	9,065	9,716	10,387	11,033
<b>PAT</b>	<b>24,195</b>	<b>25,963</b>	<b>27,807</b>	<b>29,729</b>	<b>31,562</b>
PAT growth (%)	79.7	159.0	87.8	39.9	30.4

Source: Company, Anand Rathi Research

**Fig 8 – Credit break-up**

(Rs m)	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23
Consumer B2B - Auto Finance	101,940	99,620	101,600	117,860	129,790
Consumer B2B - Sales Finance	149,770	164,750	162,590	167,120	176,270
Consumer B2C	387,720	412,070	440,720	467,330	501,080
Rural B2B Sales Finance	41,290	45,640	43,290	46,840	48,030
Rural B2C	153,010	167,400	179,080	184,580	194,570
SME	249,790	265,640	288,810	308,800	337,650
Securities Lending	105,360	108,010	121,820	132,570	150,930
IPO Financing	53,650	-	1,050	-	-
Commercial Lending	114,980	120,400	133,780	148,480	158,340
Mortgages	617,010	656,650	710,920	734,840	777,130
<b>Total AUM</b>	<b>1,974,520</b>	<b>2,040,180</b>	<b>2,183,660</b>	<b>2,308,420</b>	<b>2,473,790</b>
Y/Y growth (%)	29.1	28.3	30.8	27.4	25.3

Source: Company, Anand Rathi Research

**Fig 9 – Customer franchise**

(Rs m)	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23
Total franchise	57.57	60.30	62.91	66.05	69.1
Credit segment filter	45.21	47.27	49.08	51.30	53.6
Overall cross-sell franchise	43.62	45.66	47.46	49.66	52.0
Non-delinquent customers	38.60	40.31	41.88	43.86	45.9
Cross-sell franchise	32.77	34.66	36.39	38.58	40.6
<b>Customer franchise addition</b>	<b>2.21</b>	<b>2.73</b>	<b>2.61</b>	<b>3.14</b>	<b>3.1</b>

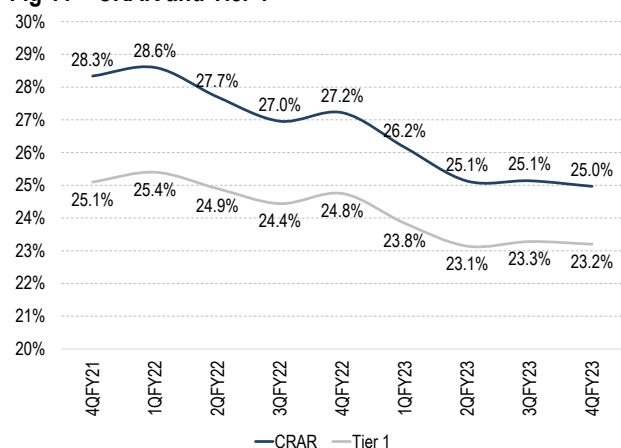
Source: Company, Anand Rathi Research

**Fig 10 – Other metrics**

(Rs m)	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23
<b>Table - App metrics</b>					
Downloads - in the qtr (m)	5.8	11.0	12.6	14.8	13.4
Net Installs - cumulative (m)	19.1	23.0	26.6	31.5	35.5
<b>App Payment Metrics</b>					
UPI Handles - Cumulative (m)	1.7	3.6	7.2	10.4	13.0
Bill Pay transactions - in the qtr (m)	1.4	2.1	3.6	5.0	5.3
QRs at merchant PoS - Cumulative ('000)	-	18.0	78.0	214.0	627.0
Rewards issues - in the qtr (m)	0.8	4.8	9.1	17.3	13.5
<b>App business Metrics</b>					
EMI cards acquired on app - in the qtr ('000)	12.0	69.0	100.0	100.0	99.0
Personal loan disbursed on app - in the qtr (m)	18,000.0	21,090.0	23,910.0	23,010.0	2,607.0
Credit card acquisition on app - in the qtr ('000)	29.0	30.0	47.8	59.2	72.0
Flexi loan transactions on app - in the qtr ('000)	780.0	866.0	1,030.0	1,481.0	1,554.0
DMS receipt on app - in the qtr ('000)	385.0	644.0	770.0	900.0	972.0
<b>Marketplace metrics</b>					
Bajaj Mall visits - in the qtr (m)	36.9	31.8	33.6	44.2	47.1
Bajaj Mall loans - in the qtr ('000)	526.0	645.0	562.0	619.0	607.0
Insurance Bazaar Policies - in the qtr ('000)	-	9.5	23.5	153.7	107.6
Investments Bazaar MF A/C - in the qtr ('000)	-	10.0	20.8	19.5	23.6
<b>Digital EMI card metrics</b>					
EMI cards acquired digitally - in the qtr ('000)	455.0	522.0	664.0	637.0	598.0
EMI cards acquired digitally - CIF (m)	1.8	2.3	2.6	3.1	3.6
B2B loans from digital EMI cards - in the qtr ('000)	234.0	227.0	269.0	284.0	291.0

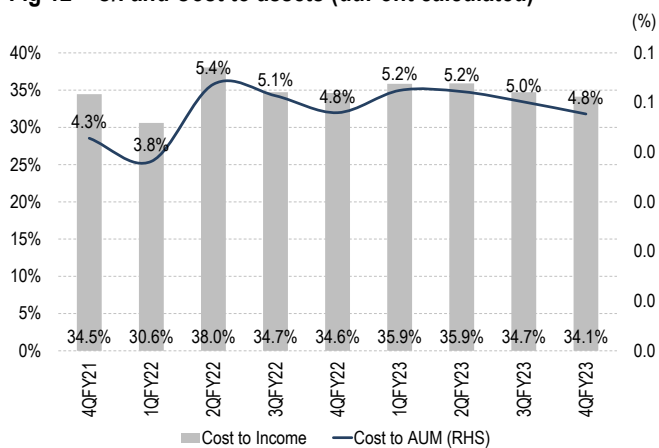
Source: Company, Anand Rath Research

Fig 11 – CRAR and Tier 1



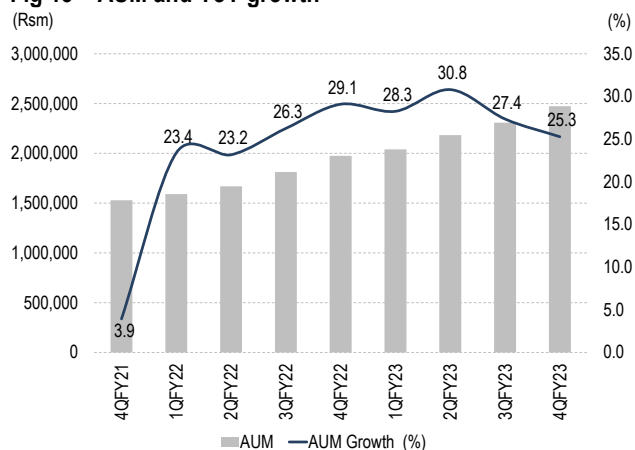
Source: Company, Anand Rath Research

Fig 12 – C/I and Cost to assets (duPont calculated)



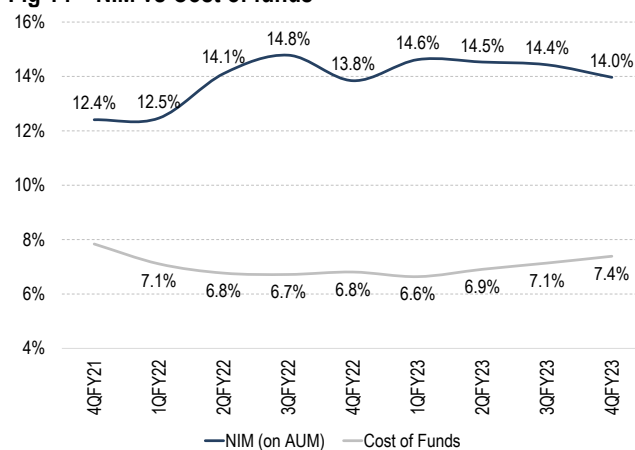
Source: Company, Anand Rath Research

Fig 13 – AUM and YoY growth



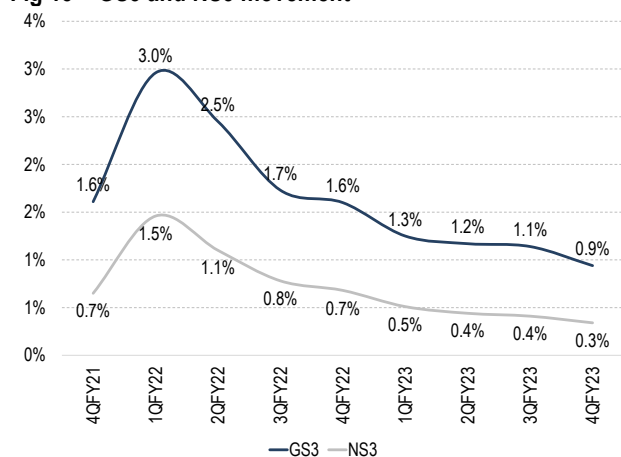
Source: Company, Anand Rath Research

Fig 14 – NIM vs Cost of funds



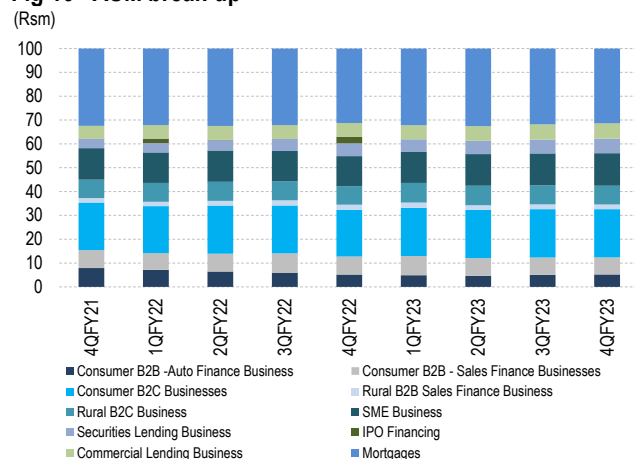
Source: Company, Anand Rath Research

Fig 15 – GS3 and NS3 movement



Source: Company, Anand Rath Research

Fig 16 –AUM break-up



Source: Company, Anand Rath Research

## Valuation

- Bajaj Finance's Q4 FY23 net profit increased 30% y/y to Rs31.5bn (marginally above expectations) driven by healthy NII growth of 30.2% y/y. We tweak our FY24e/FY25e on marginally lower growth expectations and NIM assumptions. With multiple levers of loan growth, high NIM and steady asset quality, we reiterate our Buy at a revised target price of Rs8,123 (Rs8,996 earlier).
- At our target price, the stock will trade at 7.4x FY24e BV and 6x FY25e BV, which we believe is justified on account of longevity of growth and quality franchisee.

**Fig 17 – Change in estimates**

(Rs m)	FY24e			FY25e		
	New	Old	Chg %	New	Old	Chg %
Net interest income	334,996	335,099	(0.0)	416,757	418,903	(0.5)
Pre-provisioning profit	228,939	230,844	(0.8)	286,474	297,274	(3.6)
PAT	136,550	137,958	(1.0)	168,523	176,495	(4.5)

Source: Anand Rath Research

**Fig 18 – Key assumptions**

(%)	FY24e	FY25e
<b>Balance Sheet Assumptions</b>		
AUM growth (%)	26.1	25.8
Borrowings growth (%)	31.5	23.3
<b>Asset Quality Assumptions</b>		
Credit cost (%)	1.6	1.7
Provision coverage (%)	55.3	54.2

Source: Company, Anand Rath Research

**Fig 19 – du Pont analysis**

(%)	FY21	FY22	FY23	FY24e	FY25e
Operating Income	15.4	16.3	16.4	16.3	16.4
Interest Expense	5.7	5.1	5.2	5.3	5.3
<b>Net interest income</b>	<b>9.8</b>	<b>11.1</b>	<b>11.2</b>	<b>10.9</b>	<b>11.0</b>
Other Income	0.5	0.2	0.6	0.5	0.5
<b>Total income</b>	<b>10.2</b>	<b>11.4</b>	<b>11.8</b>	<b>11.4</b>	<b>11.5</b>
Operating expenses	3.1	3.9	4.2	4.0	3.9
of which salary	1.5	1.9	2.1	2.1	2.1
<b>PPOP</b>	<b>7.1</b>	<b>7.5</b>	<b>7.7</b>	<b>7.5</b>	<b>7.6</b>
Provisions	3.6	2.5	1.3	1.4	1.5
<b>PBT</b>	<b>3.6</b>	<b>5.0</b>	<b>6.4</b>	<b>6.0</b>	<b>6.0</b>
Tax	0.9	1.3	1.6	1.6	1.6
<b>ROA</b>	<b>2.6</b>	<b>3.7</b>	<b>4.7</b>	<b>4.4</b>	<b>4.5</b>
Equity Multiplier	4.9	4.8	5.0	5.1	5.1
<b>ROE</b>	<b>12.8</b>	<b>17.4</b>	<b>23.5</b>	<b>22.6</b>	<b>22.7</b>

Source: Company, Anand Rath Research

### **Risks**

- Higher slippages.
- Lower-than-expected loan growth.
- Key-man risk.

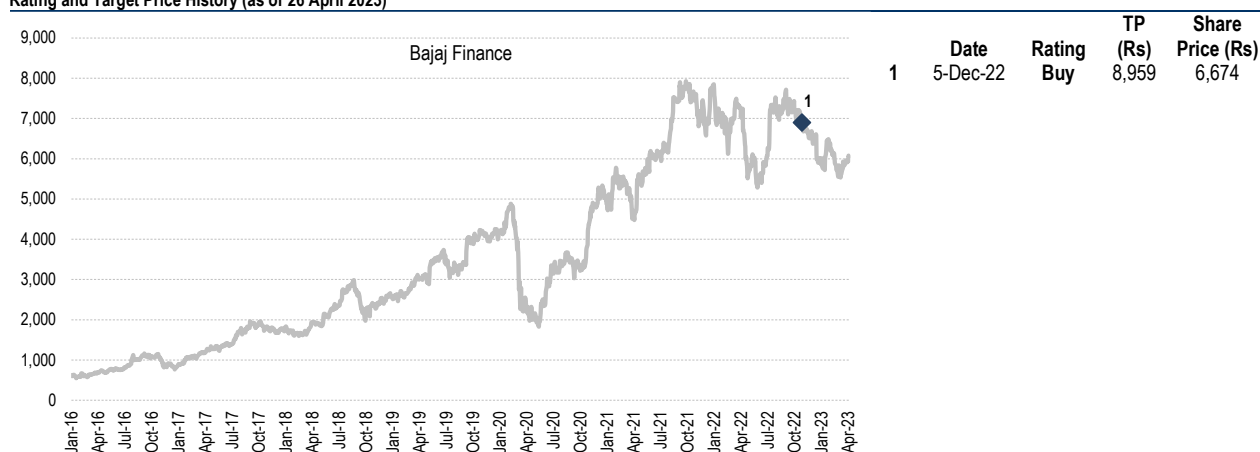
## Appendix

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#### Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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