

Oct 18, 2023

RESULT REPORT Q2 FY24 | Sector: Financials

Bajaj Finance Limited

Remains on strong footing

Strong broad-based growth, mild NII miss and no significant stress in B2C

BAF delivered a 2% miss on our earnings expectation underpinned by more-than-expected NIM decline. Credit cost was similar to Q1 FY24 with higher flows from Stage-2 (seen in B2C and SME portfolios) and enhancement of Stage-3 coverage. RoA/RoE were maintained at higher levels of 5.2%/24%. Besides the already revealed (in pre-quarter disclosure) strong traction in new loans bookings (up 26% yoy), customer base (cross-sell franchise up 5% qoq/28% yoy) and AUM (up 7.5% qoq/33% yoy), the quarter had additional positives of a) solid growth in B2B disbursements (up 31% yoy) and BHFL disbursements (up 41% yoy), b) sustained robust growth momentum in SME and Commercial portfolios, and c) Opex/NII sustaining at 34% with improving traction on digital platforms. Incremental growth in BHFL continues to be led by LRD and Developer Finance, even as company holds on to a reasonably healthy growth in Home Loans. Even though BAF has calibrated its approach in Urban B2C and Rural B2C owing to increase in risk metric/flows, the growth in these portfolios remain healthy at 29% yoy and 17% yoy respectively. Notably, the Stage-2 bucket has declined meaningfully in Urban B2C, Rural B2C and SME financing, suggesting likely lesser NPL addition in Q3 FY24.

Management Commentary sanguine on growth and asset quality

The company remains confident of adding 13-14mn new customers and about delivering a strong AUM growth in FY24, after having delivered the best growth in H1 in the past 4-5 years. The growth momentum has been solid across product lines, except for the transient calibration in Urban & Rural B2C. The originations momentum has significantly improved over the recent quarters in Urban & Rural Sales Finance, 2W/3W financing (non-captive picking up) and home loans (in BHFL), dispelling fears of market share loss amidst intensified competition. The development of new product lines like Gold Loans (POS expected at Rs50-55bn by Mar'24), Auto Loans (scaling up ahead of plan), Microfinance (pilot launched in Sept in UP & KTK), CV Finance, Tractor Loans and Emerging Corporate Loans would support long-term franchise growth. To support the robust growth momentum, the co. would be raising equity capital of Rs100bn (which includes Rs12bn through preferential allotment of warrants to Bajaj Finserv).

Management assuaged investor concerns on the impact of rising PL delinquencies in the market on BAF's asset quality and growth by highlighting a) overall delinquent pool of BAF being at 20-30% of the market's level, b) overall delinquent pool having not changed much for BAF in past three years versus having worsened for the industry and c) BAF's current 90+ dpd pool being even lower than FY20. Co. highlighted that stress in PL market is largely confined to <Rs50K and >Rs8lac ticket sizes. BAF has largely held its market share in PL (currently near 7.25% v/s 7.55% in FY20), despite significant increase in competition and tightening of underwriting.

Solid RoE delivery to continue despite capital raise. Retain BUY with increased 12m PT of Rs9700.

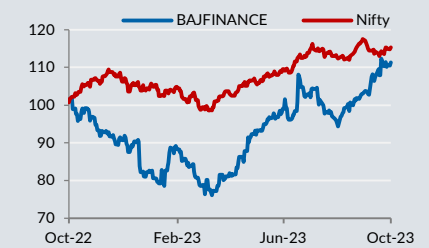
Factoring of capital raise, raising of AUM growth assumptions and marginal downward tweaking of spreads underpin minor net upgrade in EPS estimates and significant increase in ABV estimates. We expect 28-30% AUM/earnings CAGR over FY23-26 with avg. RoA/RoE delivery of 4.7%/23%. The stock is trading near its long-term mean valuation (1-yr rolling fwd. P/ABV of 5.9x) and there is headroom for re-rating with persistence of robust growth and RoE delivery. BAF has exhibited resilience in growth and profitability through various phases of competition, economic cycles/events and liquidity, underpinned by dominant market position in focused segments, agile business approach and addition of new growth segments.

Reco	: BUY
CMP	: Rs 8,093
Target Price	: Rs 9,700
Potential Return	: 20.0%

Stock data (as on Oct 17, 2023)

Nifty	19,812
52 Week h/l (Rs)	8192 / 5486
Market cap (Rs/USD mn)	4862843 / 58420
Outstanding Shares (mn)	605
6m Avg t/o (Rs mn):	6,660
Div yield (%):	0.4
Bloomberg code:	BAF IN
NSE code:	BAJFINANCE

Stock performance



	1M	3M	1Y
Absolute return	8.0%	7.7%	10.0%

Shareholding pattern

Promoter	55.9%
FII+DII	33.0%
Others	11.0%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	9,700	8,550

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	238.0	312.1	401.0
EPS (Old)	239.0	305.1	-
% Change	-0.4%	2.3%	-

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Op. income	361,834	466,875	592,961
PPOP	240,275	314,926	404,544
Net profit	146,847	192,540	247,397
Growth (%)	27.6	31.1	28.5
EPS (Rs)	238.0	312.1	401.0
ABVPS (Rs)	1,228.3	1,494.1	1,847.8
P/E (x)	34.0	25.9	20.2
P/ABV (x)	6.6	5.4	4.4
ROE (%)	22.4	22.6	23.6
ROA (%)	4.7	4.7	4.8

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Exhibit 1: Result table

Particulars (Rs mn)	Q2 FY24	Q1 FY24	% qoq	Q2 FY23	% yoy
Operating Income	133,783	124,978	7.0	99,702	34.2
Interest expended	(45,371)	(41,025)	10.6	(29,714)	52.7
Net Interest Income	88,412	83,953	5.3	69,989	26.3
Other Income	35	27	27.8	21	69.4
Total Income	88,447	83,980	5.3	70,009	26.3
Operating expenses	(30,100)	(28,544)	5.5	(25,144)	19.7
PPOP	58,347	55,437	5.2	44,865	30.0
Provisions	(10,771)	(9,953)	8.2	(7,342)	46.7
PBT	47,576	45,484	4.6	37,523	26.8
Tax	(12,070)	(11,143)	8.3	(9,716)	24.2
Reported PAT	35,508	34,369	3.3	27,807	27.7

Source: Company, YES Sec

Exhibit 2: Business Data

(Rs mn)	Q2 FY24	Q1 FY24	% qoq	Q2 FY23	% yoy
AUM	2,902,640	2,700,970	7.5	2,183,660	32.9
Consumer B2B -Auto Fin.	165,480	147,360	12.3	101,600	62.9
Consumer B2B -Sales Fin.	229,730	223,210	2.9	165,550	38.8
Consumer B2C	581,780	548,450	6.1	450,010	29.3
Rural Business	264,140	258,390	2.2	219,410	20.4
SME Business	386,730	349,640	10.6	279,530	38.4
Securities Lending	169,860	162,380	4.6	122,870	38.2
Commercial Lending	195,580	180,640	8.3	133,780	46.2
Mortgages	909,340	830,900	9.4	710,910	27.9

Source: Company, YES Sec

Exhibit 3: Customer Franchise

(mn)	Q2 FY24	Q1 FY24	% qoq	Q2 FY23	% yoy
Total Franchise	76.6	73.0	1.0	62.9	21.7
Non-Delinquent Customers	51.3	48.9	4.9	41.9	22.5
Cross sell franchise	46.7	44.3	5.4	36.4	28.2
New to BAF	3.6	3.8	(6.8)	2.6	37.2
New loans booked	8.5	9.9	(14.2)	6.8	26.2
EMI Cards in force	41.9	41.6	0.7	32.8	27.7

Source: Company, YES Sec

Exhibit 4: GNPA trend

GNPA - (%)	Q2 FY24	Q1 FY24	chg qoq	Q2 FY23	chg yoy
Consumer B2B-Auto Fin.	3.1	3.9	(0.8)	8.0	(4.9)
Consumer B2B-Sales Fin	0.6	0.4	0.2	0.5	0.1
Consumer B2C	1.2	0.9	0.3	0.9	0.3
Rural B2B	0.6	0.4	0.2	0.5	0.1
Rural B2C	1.3	0.9	0.3	1.2	0.0
SME	1.3	1.2	0.1	1.5	(0.2)
Mortgages	0.5	0.6	(0.1)	0.7	(0.2)

Source: Company, YES Sec

Exhibit 5: Key Ratios

(%)	Q2 FY24	Q1 FY24	chg qoq	Q2 FY23	chg yoy
Op Income / Average AUM*	19.1	19.3	(0.2)	18.9	0.2
Interest Expense / Average AUM*	6.5	6.3	0.1	5.6	0.8
NII / Average AUM*	12.6	13.0	(0.4)	13.3	(0.6)
Cost to Income	34.0	34.0	0.0	35.9	(1.9)
Provisions / Average AUM	1.5	1.5	(0.0)	1.4	0.1
RoE	24.1	24.5	(0.4)	23.6	0.5
RoA	5.2	5.4	(0.2)	5.4	(0.2)
CAR	23.2	24.6	(1.4)	25.1	(1.9)
Tier-1	21.9	23.0	(1.1)	23.1	(1.3)
Gross NPA	0.9	0.9	0.0	1.2	(0.3)
Net NPA	0.3	0.3	-	0.4	(0.1)
PCR	66.0	65.0	1.0	62.0	4.0

Source: Company, YES Sec; *Calculated

Exhibit 6: PCR trend

PCR - (%)	Q2 FY24	Q1 FY24	chg qoq	Q2 FY23	chg yoy
Consumer B2B-Auto Fin.	50.0	51.0	(1.0)	50.0	-
Consumer B2B-Sales Fin	79.0	79.0	-	84.0	(5.0)
Consumer B2C	75.0	75.0	-	75.0	-
Rural B2B	80.0	80.0	-	86.0	(6.0)
Rural B2C	71.0	70.0	1.0	72.0	(1.0)
SME	74.0	75.0	(1.0)	75.0	(1.0)
Mortgages	56.0	58.0	(2.0)	54.0	2.0

Source: Company, YES Sec

Exhibit 7: ECL Summary

(Rs mn)	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Stage 1 & 2 assets					
Gross Stage 1 & 2 assets	2,143,360	2,271,030	2,443,230	2,675,230	2,877,560
ECL Provision Stage 1 & 2	25,670	26,380	28,900	30,540	29,050
Net Stage 1 & 2 assets	2,117,690	2,244,650	2,414,330	2,644,690	2,848,510
Coverage ratio (%)	1.2	1.2	1.2	1.1	1.0
Stage 3 assets					
Gross Stage 3 assets	25,300	26,100	23,130	23,480	26,450
ECL Provision Stage 3	15,770	16,760	14,760	15,210	17,470
Net Stage 3 assets	9,530	9,340	8,370	8,270	8,980
Coverage ratio (%)	62.3	64.2	63.8	64.8	66.0

Source: Company, YES Sec

KEY INVESTOR CALL & PRESENTATION TAKEAWAYS

Growth & Capital Raise

- Confident about adding 13-14mn new customers in FY24 and about delivering a strong AUM growth. BAF not looking at inorganic opportunities at this point.
- Reasons for capital raise a) strong growth momentum across products in BFL and BHFL, b) BFL launching new business lines over coming quarters and c) internal leverage cap of 7x for BHFL. Capital to be most prudently allocated as per RoE thresholds.
- In Q2 FY24, B2B disbursements were up 31% yoy at Rs186.1bn as against Rs142.3bn in Q2 FY23. In Q1 FY24, B2B disbursements were up 37% yoy at Rs226.3bn.
- New car financing is moving ahead of plan and is now present in 85 locations.
- Microfinance pilot was launched on 1st September with presence in 12 locations (UP & KTK) and 100 locations are on track to go live by March 2024.
- Co. added 106 new locations and added 14K distribution points. In Q1, it had added 95 new locations and 12.5K distribution points.
- In BHFL, Home Loans AUM grew by 20% yoy, LAP grew by 4% yoy, LRD grew by 64% yoy, Developer Finance grew by 88% yoy and Rural Mortgages grew by 19% yoy. Portfolio composition across HL, LAP, LRD, DF, Rural and Others stood at 56%, 9%, 19%, 10%, 4% and 2%.
- In Q2 FY24, BHFL's overall approvals grew 46% yoy to Rs199.5bn and overall disbursements grew 41% yoy to Rs121.5bn. In Q1 FY24, BHFL's approvals and disbursements had grown by 18% yoy and 12% yoy respectively.
- Against the regulatory requirement of having 60% Housing Loans (HL excl. Top-up + CRE-RH) by Mar'24, BHFL stands at 59% at present.
- 8 quarters away for HFC listing requirement. The co. would request the regulator for more time for listing BHFL.
- Products Per Customer (PPC) has improved over the years and typically improves with customer vintage/MoB.

NIM & Opex

- NIM compression was of 14 bps in Q2 FY24. NIM had declined by 11 bps qoq in Q1.
- Consolidated CoF stood at 7.67%, an increase of 6 bps over Q1 FY24. In Q1, CoF increased by 22 bps qoq. BHFL's CoF declined by 3 bps qoq in Q2 FY24.
- Deposits were 21% of consolidated borrowings and 28% of standalone borrowings. In Q2 FY24, net deposit growth was Rs48.8bn v/a Rs52.8bn in Q1.
- NIM could decline further by 30 bps in H2 FY24, mainly due to hardening of CoF from replacement of some of the low-cost borrowings.
- Impact of NIM decline would be mitigated by moderation in Opex/NII metric.
- BAF expects to exit FY24 with RoA of above 5%.

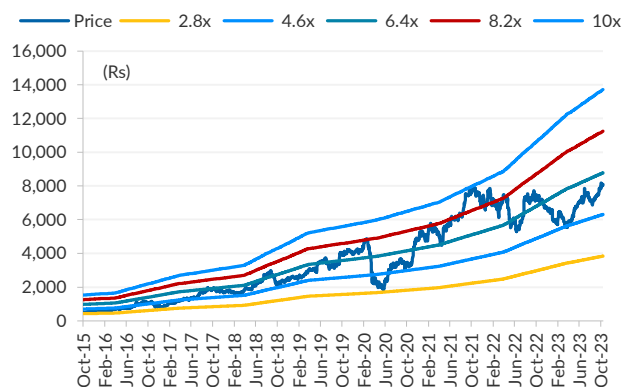
Asset Quality

- Slight increase in GNPL level on account of seasonality.
- Stage-3/Stage-2 assets stood at Rs26.5bn/Rs31bn as against Rs23.5bn/Rs32.9bn as of June.
- In Q2 FY24, the credit cost was Rs10.8bn. The co. released Rs1bn (Rs1.2bn in Q1) from management & macro-economic overlay which stood at Rs7.4bn as of Sept'23.
- Risk metrics across all businesses were stable except Rural B2C business. The co. has taken risk actions in Rural B2C business resulting in muted AUM growth in H1 FY24.
- Co. is closely looking at customer leverage and propensity to default data for taking growth and risk actions in PL. In fact, the co. is being driven by this analysis across all product lines including HL.
- In LRD, BAF has not had a single instance of default even during the stressful period of March 2020-2022. The co. discounts only Grade A commercial properties (no retails malls) where rentals are coming from the Fortune 500 cos. Escrowed CFs are 30-40% higher than EMI. For the properties funded, the total vacancy stands 1.6% v/s 15-16% in the market.

Assessed risks in PL/Unsecured portfolio

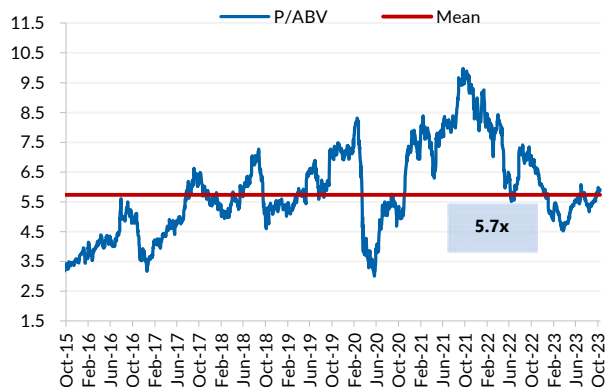
- The PL market has grown in terms of volume from 45mn in FY20 to 105mn in FY23. Largest growth was seen in loan ticket segments of <Rs50K and >Rs8lac.
- Size of PL market has grown rapidly from Rs7.6tn in FY20 to 13.5tn in FY23.
- The PL market was 94% current in FY20, 92% current in FY22 and 92% current FY23. Against this BAF's PL portfolio was 98% current in FY20, 97% current in FY22 and 98% current in FY23.
- <50K PL is where some pain is and it not necessarily on account of leverage but also due to imprudence.
- BAF has cut volumes by 14% in Rural B2C and 8% in Urban B2C representing aversion to customers having multiple small PL's.
- BAF's market share in PL currently around 7.25% v/s 7.55% in FY20. The co. largely held its market share despite significant increase in competition and tightening of underwriting.
- BAF's 90+ dpd in PLs of >Rs8lac is substantially lower than the industry. It was at 18 bps v/s 115 bps as of FY23.
- In >50K PL portfolio, BAF's 90+ dpd is currently even lower than FY20.

Exhibit 8: 1-yr rolling P/ABV band



Source: Company, YES Sec

Exhibit 9: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Balance Sheet

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Equity and Liabilities					
Equity Share Capital	1,207	1,209	1,234	1,234	1,234
Other Equity	435,920	542,511	767,678	934,954	1,157,087
Share-holders fund	437,127	543,720	768,912	936,188	1,158,321
Financial Liabilities	1,679,935	2,200,952	2,781,932	3,646,129	4,622,415
Deposits	307,995	446,656	589,585	754,669	965,977
Trade payables	16,511	20,955	25,669	31,445	38,520
Debt Securities	762,231	868,452	1,085,566	1,432,946	1,812,677
Borrowings (Excl. Debt Sec.)	543,636	815,494	1,019,368	1,345,565	1,702,140
Subordinated Liabilities	38,458	36,303	45,379	59,900	75,773
sOther Financial Liabilities	11,104	13,093	16,366	21,603	27,328
Non-Financial Liabilities	7,992	7,615	9,342	11,467	14,080
Current tax liabilities (net)	1,001	1,392	1,740	2,175	2,719
Provisions	1,669	2,704	3,381	4,226	5,282
Other non-financial liabilities	5,322	3,518	4,222	5,066	6,079
Total Liabilities + Equity	2,125,054	2,752,287	3,560,187	4,593,783	5,794,816
Assets					
Financial Assets	2,094,584	2,715,935	3,522,634	4,554,915	5,754,501
Cash and Cash Equivalents	34,072	15,508	16,107	28,847	33,742
Bank balances	2,731	27,538	8,261	8,261	8,261
Trade Receivables	12,659	12,997	15,597	18,716	22,459
Other Receivables	1,219	1,489	1,861	2,326	2,908
Loans	1,914,233	2,422,689	3,197,950	4,157,335	5,279,815
Investments	122,455	227,518	273,022	327,626	393,152
Other Financial Assets	7,215	8,196	9,836	11,803	14,163
Non- Financial Assets	30,470	36,351	37,553	38,868	40,315
Current tax assets (net)	1,683	1,814	2,177	2,613	3,135
Deferred tax assets (net)	9,511	9,371	9,371	9,371	9,371
Property, plant and equipment	12,826	16,766	17,604	18,484	19,408
Goodwill	33	33	33	33	33
Other Intangible assets	4,646	7,076	7,076	7,076	7,076
Other non-financial assets	1,771	1,292	1,292	1,292	1,292
Total Assets	2,125,054	2,752,287	3,560,187	4,593,783	5,794,816

Source: Company, YES Sec

Exhibit 11: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Income from Operations	316,405	413,974	545,160	690,844	864,915
Interest expense	(97,537)	(125,599)	(183,446)	(224,099)	(272,084)
Net interest income	218,868	288,375	361,714	466,745	592,831
Non-interest income	76	83	120	130	130
Total op income	218,944	288,458	361,834	466,875	592,961
Total op expenses	(75,872)	(101,300)	(121,560)	(151,949)	(188,417)
PPoP	143,072	187,158	240,275	314,926	404,544
Provisions	(48,034)	(31,897)	(44,479)	(58,206)	(74,681)
Profit before tax	95,038	155,262	195,796	256,720	329,863
Taxes	(24,756)	(40,202)	(48,949)	(64,180)	(82,466)
Net profit	70,282	115,060	146,847	192,540	247,397

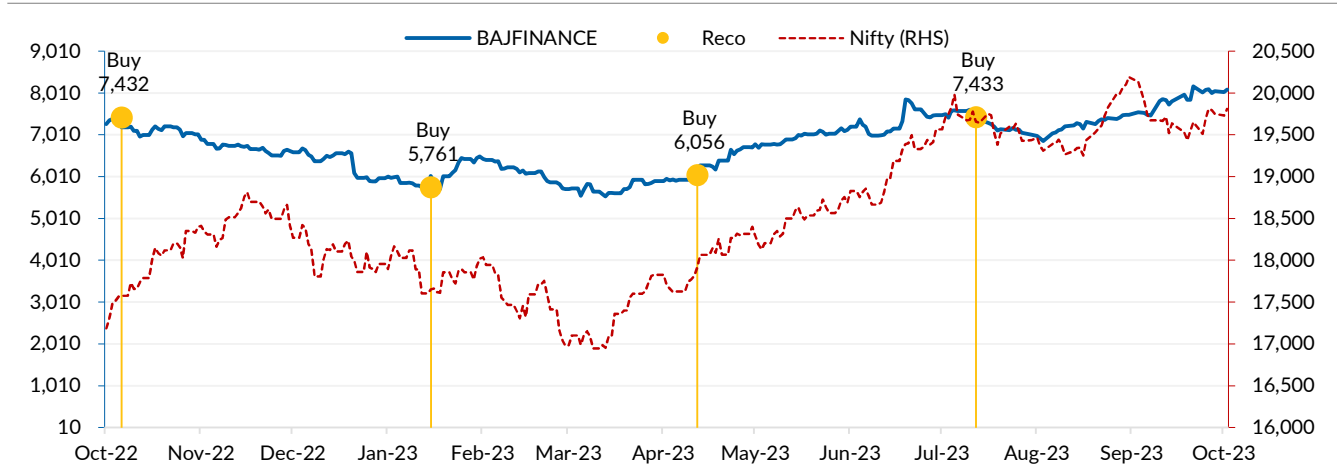
Source: Company, YES Sec

Exhibit 12: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Net interest income	26.8	31.8	25.4	29.0	27.0
Total op income	26.8	31.7	25.4	29.0	27.0
Op profit (pre-provision)	19.6	30.8	28.4	31.1	28.5
Net profit	59.0	63.7	27.6	31.1	28.5
Advances	30.5	26.6	32.0	30.0	27.0
Total Borrowings	27.0	28.0	25.0	32.0	26.5
Total assets	23.9	29.5	29.4	29.0	26.1
Profitability Ratios (%)					
NIM	12.5	13.0	12.6	12.4	12.3
Return on Avg. Equity	17.4	23.5	22.4	22.6	23.6
Return on Avg. Assets	3.7	4.7	4.7	4.7	4.8
Per share ratios (Rs)					
EPS	116.5	190.4	238.0	312.1	401.0
Adj. BVPS	702.3	885.6	1,228.3	1,494.1	1,847.8
DPS	20.0	30.0	30.0	35.0	35.0
Other key ratios (%)					
Cost/Income	34.7	35.1	33.6	32.5	31.8
Tier-I capital	24.8	23.8	25.5	23.9	23.3
Gross NPLs/Loans	1.6	0.9	0.9	0.9	0.9
Credit Cost	2.7	1.4	1.6	1.6	1.6
Net NPLs/Net loans	0.7	0.3	0.3	0.3	0.3
Tax rate	26.0	25.9	25.0	25.0	25.0
Dividend yield	0.2	0.4	0.4	0.4	0.4

Source: Company, YES Sec

Recommendation Tracker



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