

BUY

TP: Rs 8,830 | ▲ 31%

BAJAJ FINANCE

| NBFC

| 26 April 2024

Obstacles for a powerful player on a protracted journey

- Rising cost of funds dent NIM; we factor in a further 43bps/13bps YoY decline in FY25/FY26
- AUM grew 34% YoY in FY24 but amidst pain in fewer segments and guidance we lower growth to 27%/25% for FY25/FY26
- Lower the TP to Rs 8,830 (Rs 10,105 earlier) to bake in the negatives with a lower target FY26E P/ABV of 4.7x (vs 5.5x) for standalone business

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NIM moderates: NIM (calc.) compressed 57bps YoY owing to higher COF (58bps YoY) in Q4 and the pain is expected to last for at least two quarters despite increasing loan yields to mitigate the impact. We now factor in NIM margin of 10%/9.8% for FY25/FY26 with NII growth of 25%/24%, lower than the average of 29% registered over FY22-FY24. Apart from NII, there was moderation in fee income growth due to the Reserve Bank of India's embargo. Lifting the ban could be a positive for the stock. We expect operating leverage to kick in (as witnessed in past occasions too) and thus we lower our C/I ratio by 50bps/120bps for FY25/FY26 to 33.5%/33.1%.

Normalised AUM growth in FY25: In contrast to 34% YoY AUM growth in FY24, management has projected 26-28% growth in FY25. Loan against property, finance for new cars, and financing for tractors, which might be cyclical, would drive the expansion. In terms of categories, the pain persisted in Rural B2C (excluding gold loans), where growth slowed to 6% YoY. But it makes up a minor percentage of the balance sheet and its focus is to expand the secured businesses. We forecast 27%/25% YoY growth in AUM to Rs 4.2tn/Rs 5.2tn for FY25/FY26.

Asset quality strong; well capitalised: Management has focused on risk management ahead of growth and thus cut down exposures to riskier segments. GNPA/NNPA at 0.85%/0.37% is a strong representation. Although we factor in a 5bps increase in FY25 credit cost (FY26: unchanged) to 1.85%/1.95%, it would remain <2% and within comfort levels. Capital adequacy remained strong at 22.5% as of Mar'24 with Tier-1 capital at 21.5%.

Maintain BUY: We reduce our FY26E P/ABV for the standalone business to 4.7x from 5.5x, a 15% discount to the stock's long-term mean, to account for growth deceleration and pain in fewer divisions. Baking in our revised estimates and target multiple, we arrive at a fair value of Rs 8,240/sh (Rs 9,488 earlier) for standalone operations. Adding Rs 591/sh for subsidiaries, we have a new SOTP-based TP of Rs 8,830 (Rs 10,105 earlier) for BAF that offers 31% upside. Maintain BUY rating.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	BAF IN/Rs 6,731
Market cap	US\$ 50.2bn
Free float	44%
3M ADV	US\$ 113.3mn
52wk high/low	Rs 8,192/Rs 6,066
Promoter/FPI/DII	56%/20%/13%

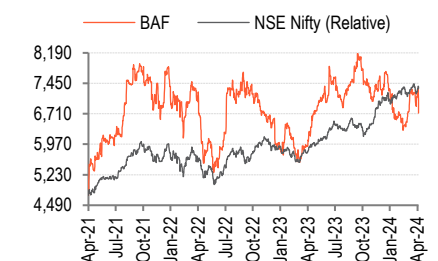
Source: NSE | Price as of 26 Apr 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
NII (Rs mn)	2,95,819	3,70,061	4,60,394
NII growth (%)	28.7	25.1	24.4
Adj. net profit (Rs mn)	1,44,512	1,72,822	2,15,333
EPS (Rs)	236.0	282.2	351.6
Consensus EPS (Rs)	236.0	285.0	350.0
P/E (x)	28.5	23.9	19.1
P/BV (x)	5.4	4.5	3.8
ROA (%)	4.4	4.1	4.1
ROE (%)	22.1	20.6	21.4

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

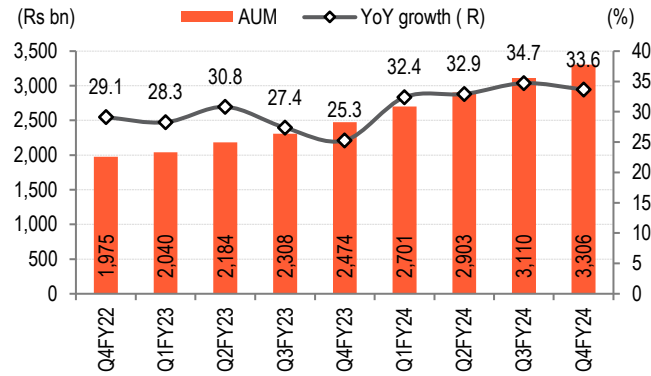
Stock performance



Source: NSE

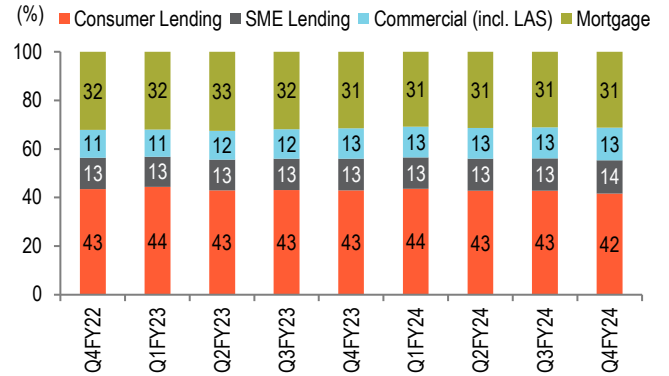


Fig 1 – Strong AUM growth



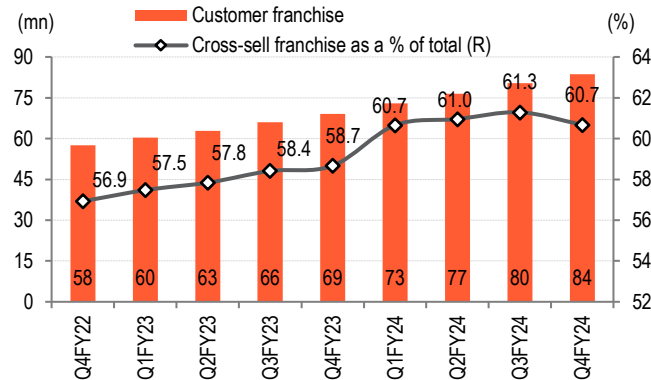
Source: Company, BOBCAPS Research

Fig 2 – AUM mix largely stable



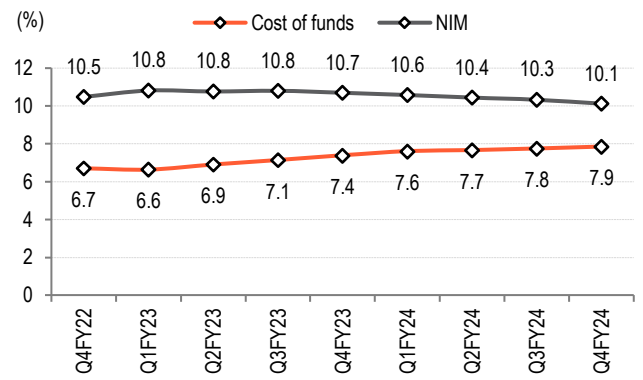
Source: Company, BOBCAPS Research

Fig 3 – Customer franchise strong



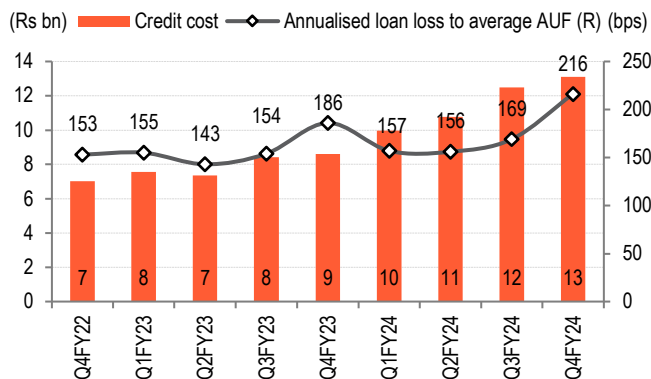
Source: Company, BOBCAPS Research

Fig 4 – NIM under pressure owing to higher cost of funds



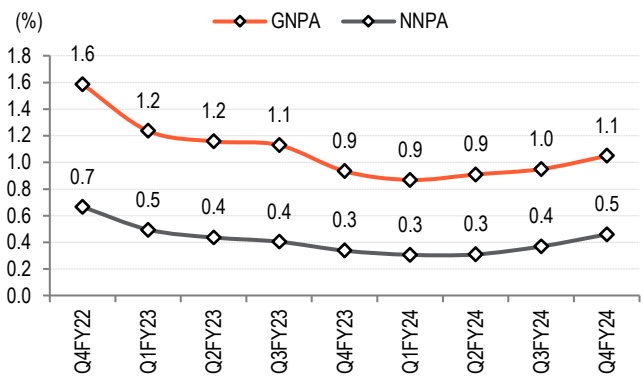
Source: Company, BOBCAPS Research

Fig 5 – Credit cost swells



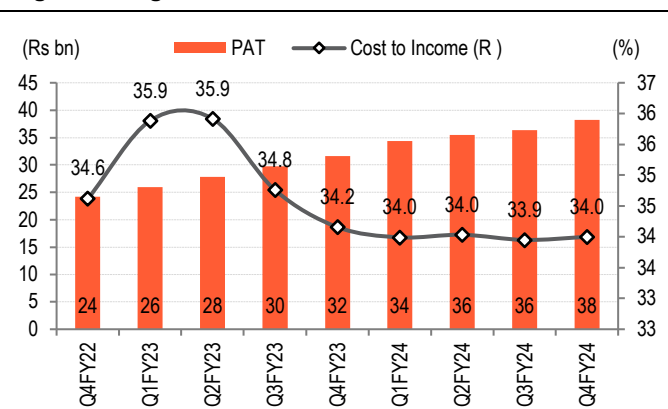
Source: Company, BOBCAPS Research | AUF: Assets under Finance

Fig 6 – Asset quality strong though NPA numbers inch up



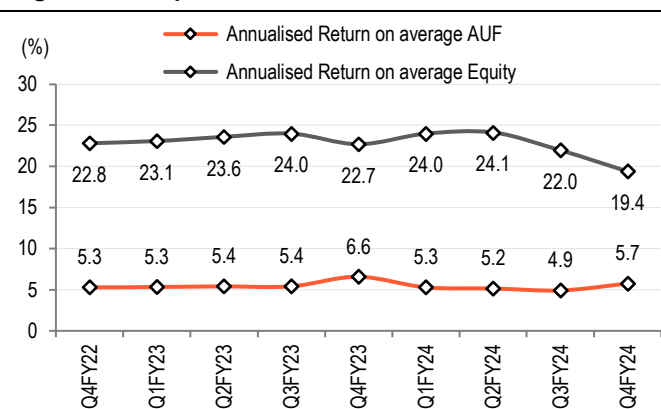
Source: Company, BOBCAPS Research

Fig 7 – PAT growth stable



Source: Company, BOBCAPS Research

Fig 8 – ROE dips in Q4



Source: Company, BOBCAPS Research

Fig 9 – Customer profile

Particulars	Unit	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
New loans booked	mn	10.1	15.3	23.5	27.4	16.9	24.7	29.6	36.2
New customer addition	mn	4.1	6.1	8.3	8.1	6.0	9.0	11.6	14.5
Co-branded credit cards sold	mn	0.03	0.39	0.81	1.12	0.70	1.36	1.92	1.85
Other financial products sold to existing customers	mn	0.06	0.08	0.19	0.27	0.67	2.23	2.36	2.61
AUM per cross-sell franchise	Rs	54,722	53,417	56,066	60,983	56,879	58,617	60,991	65,146
PAT per cross-sell franchise	Rs	1,670	1,618	1,933	2,182	1,644	2,145	2,837	2,847

Source: Company, BOBCAPS Research Note: PAT per cross sell franchise not annualised for H1FY24

Fig 10 – Profit and loss account

Consolidated (Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
P&L								
Interest Income	1,32,301	98,469	34.4	1,25,233	5.6	4,83,066	3,55,502	35.9
Interest Expense	52,171	35,920	45.2	48,680	7.2	1,87,247	1,25,599	49.1
Net Interest Income (NII)	80,130	62,549	28.1	76,553	4.7	2,95,819	2,29,903	28.7
Non-interest income	17,019	15,196	12.0	16,436	3.5	66,759	58,555	14.0
Fee Income	13,244	11,477	15.4	12,915	2.6	52,805	43,660	20.9
Sale of services	88	199	(55.9)	89	(1.3)	500	382	30.9
FV changes	784	851	(7.9)	684	14.7	3,083	3,343	(7.8)
Recovery from written off loans	2,843	2,649	7.3	2,601	9.3	10,241	11,087	(7.6)
Non-Interest Income	60	20	199.0	147	(59.4)	130	83	56.7
Total income	97,149	77,745	25.0	92,989	4.5	3,62,578	2,88,458	25.7
Employee Costs	16,497	13,411	23.0	16,618	(0.7)	63,960	51,002	25.4
Fees & commission expense	5,196	4,859	6.9	4,706	10.4	19,315	18,915	2.1
Depreciation	1,930	1,341	43.9	1,758	9.8	6,833	4,854	40.8
Other Expenses	9,405	6,945	35.4	8,486	10.8	33,144	26,655	24.3
Total Operating Expenses	33,028	26,556	24.4	31,567	4.6	1,23,252	1,01,425	21.5
PPOP	64,121	51,189	25.3	61,422	4.4	2,39,326	1,87,033	28.0
Loan loss provision	13,100	8,594	52.4	12,484	4.9	46,307	31,897	45.2
PBT	51,021	42,595	19.8	48,939	4.3	1,93,019	1,55,136	24.4
Share of profit/(loss) from associate	30.1	16	87.0	17	82.4	76	17	357.5
Taxes	12,806	11,033	16.1	12,566	1.9	48,584	40,202	20.9
PAT	38,245	31,578	21.1	36,390	5.1	1,44,512	1,14,951	25.7

Source: Company, BOBCAPS Research

Fig 11 – Key balance sheet numbers

Rs mn	Q4FY24	Q4FY23	YoY (%)
Loans	32,62,933	24,22,689	34.7
Investments	3,08,807	2,27,518	35.7
Total financial assets	37,09,912	27,15,935	36.6
Total non-financial assets	47,504	36,351	30.7
Total Assets	37,57,416	27,52,287	36.5
Debt securities	11,79,995	8,68,452	35.9
Borrowings	11,16,175	8,15,494	36.9
Deposits	6,01,509	4,46,656	34.7
Subordinated debts	35,779	36,303	(1.4)
Total financial liabilities	29,80,210	22,00,952	35.4
Total non financial liabilities	10,253	7,615	34.7
Total liabilities	29,90,463	22,08,567	35.4
Total equity	7,66,954	5,43,720	41.1
Total liabilities & equity	37,57,416	27,52,287	36.5

Source: Company, BOBCAPS Research

Earnings call takeaways

Operational highlights

- BAF's AUM grew 34% YoY to Rs 3.4tn at end-FY24. Net profit grew 26% YoY to Rs 144bn. Opex to net total income for FY24 improved to 34.0% as against 35.1% in FY23 and management expects this to improve 20-40bps in FY25.
- Subsidiary Bajaj Housing Finance's (BHFL) AUM increased 32% YoY to Rs 914bn at end-Q4. Of this, developer finance grew 69% YoY, albeit on a low base. Home loans, which form 50%+ of the total book, grew 24% YoY.
- The number of new loan accounts booked by BAF grew 22% YoY to 36.2mn in FY24 vs. 29.6mn in FY23.
- The company added 14.5mn new customers during FY24 (3.23mn new in Q4) and expects to add 12mn-14mn in all during FY25. The cross-sell customer franchise stood at 50.8mn at end FY24 vs 40.6mn at end FY23.
- The company is present in 4,145 locations, adding 53 locations in Q4 and 412 in FY24.
- Employee headcount stood at 53,782 as of 31 Mar 2024. The employee headcount reduced by 499 in Q4. Attrition for FY24 was 14.9% as against 18.7% for FY23.
- Product per customer (PPC) increased from 5.81 at the end of FY23 to 6.07 at the end of Q4FY24, indicating that the company's relationships with its customers is growing. PPC is a business metric used to determine the average number of products or services (active or closed) that a customer has availed of over his/her lifetime with BAF and its subsidiaries.
- The Board of Directors has recommended a dividend of Rs 36 per equity share for FY24.

Asset quality

- GNPA stood at 0.85% and NNPA at 0.37% as of 31 Mar 2024 as against 0.94% and 0.34% as of 31 Mar 2023.
- In Q4, loan losses and provisions were Rs 13bn. Rural B2C business continued to witness elevated loan losses in Q4 as well. AUM growth (YoY) of Rural B2C (excl. gold loan) declined from 25% in Mar'23 to 6% in Mar'24.
- Loan loss to average AUF (excluding management overlay) was 1.86% in Q4. The company held a management overlay of Rs 3bn as of 31 Mar 2024. During Q4, Rs 1.3bn was utilised towards strengthening its ECL model and it released Rs 1.6bn towards loan losses and provisions. For FY25, management expects loan loss to average AUF in the range of 1.75-1.85%.

Margins

- NIM has moderated throughout FY24 due to an increase in the cost of funds (COF).

- The company expects COF to peak by Jul-Aug'24. It expects a 30-40 bps moderation in NIM over the next two quarters from the current levels.

Regulatory scrutiny

- The company has made changes in response to the regulatory restriction imposed by the RBI in Nov and has requested the regulator to review and remove these restrictions. In Nov, the RBI instructed Bajaj Finance to stop issuing new loans through its 'eCOM' and 'Insta EMI Card' due to non-compliance with digital lending guidelines, particularly the non-issuance of key fact statements (KFS) to borrowers.
- The company has implemented KFS for all lending products effective 31 March 2024 and made it available in 20 languages.

Bajaj Housing Finance IPO

- The board of BHFL has constituted a committee to evaluate options regarding the mandatory listing as it is classified as an upper layer NBFC.

Valuation methodology

Q4 remained weak owing to (i) **Higher COF**: NII was up 28% YoY in Q4 compared to AUM growth of 34% YoY. This is because NIM (calc.) compressed 57bps YoY owing to higher COF (58bps YoY). Management expects higher COF for at least the next two quarters. (ii) **Lower growth in fee income**: Fee income grew 15% YoY in Q4 similar to Q3 but was lower compared to 26%/30% YoY growth during Q3/Q4 FY23. This is primarily due to the embargo by RBI on EMI card. (iii) **AUM growth to normalise**: Management has guided for 26-28% growth in FY25; lower compared to 34% in FY24. Growth would be led by LAP, new car and tractor financing which can be cyclical. Categorically, the pain in Rural B2C (ex-gold loans) continued with growth slipping to 6% YoY. However, management specified that it is a small portion of balance sheet and the focus is on growing secured businesses. (iv) **Asset quality strong**: The GNPA and NNPA remained low and we expect it to remain strong.

We now bake in NIM (calc.) compression of additional 12/16bps from our earlier estimate to 10%/9.8% for FY25/FY26. We raised credit cost by 5bps for FY25 while keeping FY26 unchanged. We take credit costs at a higher range of 185-190bps for the forecast period. AUM growth is expected to be 27%/25% for FY25/FY26. We lower our PAT forecasts by 3%/1% for FY25/FY26.

Over the last decade, the stock has traded at an average of 5.5x one-year forward ABV on a standalone basis and 4.7x on a consolidated basis. Owing to reasons stated above, we lower our multiple from 5.5x to 4.7x (15% discount to long-term mean) to bake in the negatives. We arrive at a new value of Rs 8,240/sh (Rs 9,488 earlier) for standalone operations. The addition of Rs 571/sh for the housing arm BHFL (2x FY26E BV) and Rs 20/sh for securities subsidiary Bajaj Financial Securities (15x FY26E EPS) – makes for an SOTP-based TP of Rs 8,830 (Rs 10,105 earlier). We maintain BUY with 31% upside from the current stock price.

Fig 12 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
AUM	41,98,811	52,48,513	42,04,804	52,68,038	(0.1)	(0.4)
NII	3,70,061	4,60,394	3,77,689	4,79,235	(2.0)	(3.9)
Total income	4,50,650	5,63,182	4,62,573	5,79,106	(2.6)	(2.7)
C/ I ratio (%)	33.5	33.1	34.0	34.3	(50bps)	(119bps)
PPOP	2,99,679	3,76,730	3,05,186	3,80,323	(1.8)	(0.9)
Credit costs (bps)	185	190	180	190	5bps	0bps
PAT	1,72,822	2,15,333	1,78,464	2,18,245	(3.2)	(1.3)

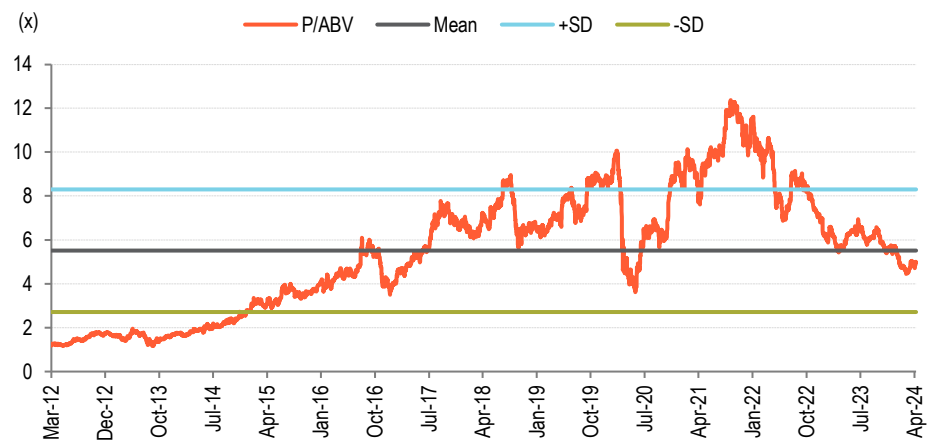
Source: BOBCAPS Research

Fig 13 – SOTP valuation

FY26E	Stake (%)	(Rs bn)	(Rs/share)	Valuation basis
Value of Bajaj Finance (Standalone)	-	5,155	8,240	4.7x P/ABV FY26E
Subsidiaries valuation	-	362	591	-
Bajaj Housing Finance (BHFL)	100	350	571	2x P/BV FY26E
Bajaj Financial Securities (BFSL)	100	12	20	15x P/E FY26E
Value of Bajaj Finance (Consolidated)	-	5,517	8,831	-
Final value (Consolidated – Rounded off)	-	-	8,830	-
Current Market Price	-	-	6,731	-
Upside/(Downside) (%)	-	-	31.2	-

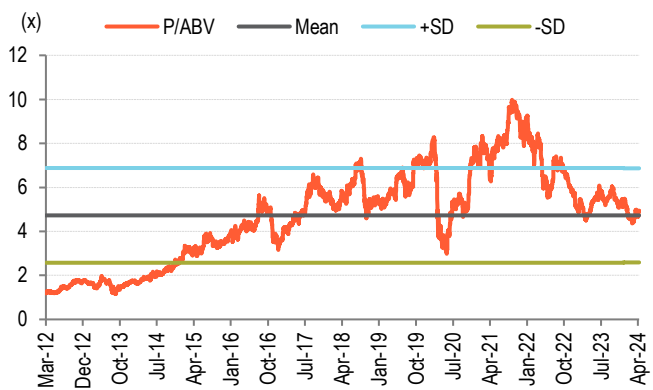
Source: BOBCAPS Research

Fig 14 – P/ABV 1Y fwd: Stock trading close to mean on standalone basis



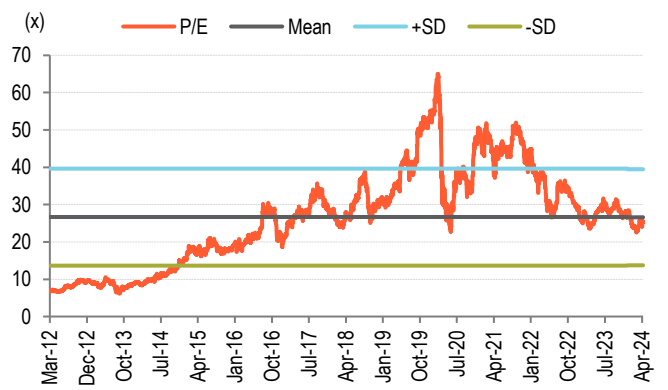
Source: Bloomberg, BOBCAPS Research

Fig 15 – P/ABV 1Y fwd: Stock trading around mean on consolidated basis



Source: Bloomberg, BOBCAPS Research

Fig 16 – P/E 1Y fwd: Stock trading close to mean on consolidated basis



Source: Bloomberg, BOBCAPS Research

Key risks

- **Intensifying competition:** Based on a wide product suite, solid execution capabilities, and robust demand for credit in its target industries, we expect BAF to achieve 20%+ loan growth in the medium term. However, above-expected competition, particularly from banks and other financial institutions, could weigh on performance, affecting our earnings, margin and valuation assumptions.
- **Deteriorating asset quality:** Between FY19 and FY24, BAF's GNPA and NNPA averaged just 1.4% and 0.6% respectively. Asset quality may decline because of slow economic growth or the recurrence of a pandemic (such as Covid) or a particular business segment.
- **Higher delinquency in new segments:** The company entering the higher risk microfinance and tractor financing markets could pose risks to asset quality.
- **Regulatory headwinds:** According to the RBI's scale-based NBFC framework published in 2022, BAF (along with 15 others) has been classified as an upper layer NBFC that must adhere to enhanced regulation. It cannot, for instance, lend more than 20% to one entity and more than 25% to a group of entities. In future, the RBI may even direct the company to transition from an NBFC into a bank, which would entail maintaining CRR, SLR and PSL – strictures that NBFCs aren't subject to and which would impact profitability, in our view.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Bajaj Finance	BAF IN	50.2	6,731	8,830	BUY
SBI Card	SBICARD IN	8.7	750	800	HOLD

Source: BOBCAPS Research, NSE | Price as of 26 Apr 2024

Glossary

Glossary of Abbreviations			
AUF	Assets Under Finance	LRD	Lease Rental Discounting
AUM	Assets Under Management	MDR	Merchant Discount Rate
CIF	Cards in Force	MSME	Micro, Small & Medium Enterprises
CRR	Cash Reserve Ratio	PSL	Priority Sector Lending
ECL	Expected Credit Loss	SLR	Statutory Liquidity Ratio
EMI	Equated Monthly Installment	UPI	Unified Payment Interface
LAP	Loan Against Property		

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Net interest income	1,75,235	2,29,887	2,95,819	3,70,061	4,60,394
Nil growth (%)	26.2	31.2	28.7	25.1	24.4
Non-interest income	43,708	58,697	66,759	80,589	1,02,788
Total income	2,18,944	2,88,584	3,62,578	4,50,650	5,63,182
Operating expenses	75,872	1,01,425	1,23,252	1,50,971	1,86,452
PPOP	1,43,072	1,87,158	2,39,326	2,99,679	3,76,730
PPOP growth (%)	19.6	30.8	27.9	25.2	25.7
Provisions	48,034	31,897	46,307	68,633	88,852
PBT	95,038	1,55,262	1,93,019	2,31,046	2,87,878
Tax	24,756	40,202	48,584	58,224	72,545
Reported net profit	70,282	1,15,077	1,44,512	1,72,822	2,15,333
Adjustments	0	0	0	0	0
Adjusted net profit	70,282	1,15,077	1,44,512	1,72,822	2,15,333

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Equity capital	1,207	1,209	1,236	1,236	1,236
Reserves & surplus	4,35,920	5,42,511	7,65,718	9,12,617	10,95,650
Net worth	4,37,127	5,43,720	7,66,954	9,13,853	10,96,886
Debt securities	7,62,231	8,68,452	11,79,995	15,00,832	18,76,040
Borrowings	8,90,089	12,98,453	17,53,463	22,30,223	27,87,779
Other liab. & provisions	35,618	41,662	57,004	77,216	97,447
Total liab. & equities	21,25,064	27,52,287	37,57,416	47,22,123	58,58,151
Cash & bank balance	36,803	43,045	1,06,240	80,954	60,019
Investments	1,22,455	2,27,518	3,08,807	3,92,184	4,90,230
Advances	19,14,233	24,22,689	32,62,933	41,56,822	51,96,028
Fixed & Other assets	51,573	59,034	79,436	92,162	1,11,874
Total assets	21,25,064	27,52,287	37,57,416	47,22,123	58,58,151
Total debt growth (%)	39.9	13.9	35.9	27.2	25.0
Advances growth (%)	30.5	26.6	34.7	27.4	25.0

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
EPS	116.8	189.6	236.0	282.2	351.6
Dividend per share	20.0	30.0	36.0	42.3	52.7
Book value per share	726.6	895.7	1,252.4	1,492.3	1,791.2

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
P/E	57.6	35.5	28.5	23.9	19.1
P/BV	9.3	7.5	5.4	4.5	3.8
Dividend yield (%)	0.3	0.4	0.5	0.6	0.8

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Net interest income	9.1	9.4	9.1	8.7	8.7
Non-interest income	2.5	2.8	2.4	2.1	2.2
Operating expenses	4.0	4.2	3.8	3.6	3.5
Provisions	2.5	1.3	1.4	1.6	1.7
ROA	3.7	4.7	4.4	4.1	4.1
Leverage (x)	4.8	5.0	5.0	5.0	5.3
ROE	17.4	23.5	22.1	20.6	21.4

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Net interest income	26.2	31.2	28.7	25.1	24.4
Pre-provisioning profit	19.6	30.8	27.9	25.2	25.7
EPS	58.6	62.3	24.5	19.6	24.6
Profitability & Return ratios (%)					
Net interest margin	10.4	10.6	10.4	10.0	9.8
Fees / Avg. assets	1.6	1.8	1.6	1.6	1.7
Cost-Income	34.7	35.1	34.0	33.5	33.1
ROE	17.4	23.5	22.1	20.6	21.4
ROA	3.7	4.7	4.4	4.1	4.1
Asset quality (%)					
GNPA	1.6	0.9	0.8	0.9	1.0
NNPA	0.7	0.3	0.4	0.4	0.4
Slippage ratio	4.1	1.9	2.4	1.9	1.8
Credit cost	2.8	1.5	1.6	1.9	1.9
Provision coverage	58.0	64.0	57.0	52.9	54.7
Ratios (%)					
Loans to Total debt	115.5	111.5	110.9	111.1	111.1
CAR	27.2	25.0	22.5	22.4	22.7
Tier-1	24.8	23.2	21.5	21.4	21.7

Source: Company, BOBCAPS Research

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BUY – Expected return >+15%

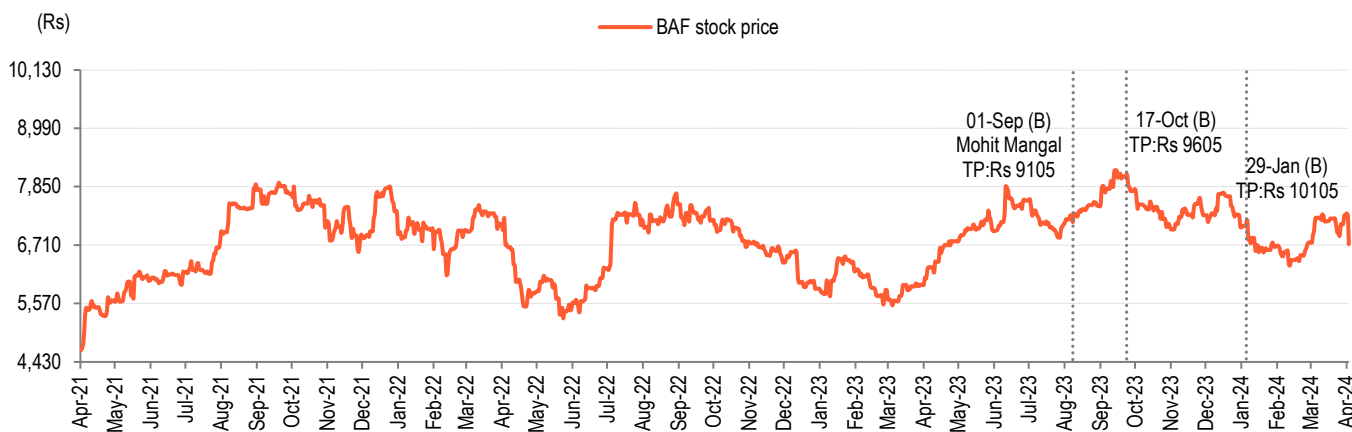
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): BAJAJ FINANCE (BAF IN)



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