FIRST LIGHT

18 October 2023

RESEARCH

HDFC BANK | TARGET: Rs 1,929 | +25% | BUY

PAT strong despite margin compression

BAJAJ FINANCE | TARGET: Rs 9,605 | +19% | BUY

On a strong wicket; maintain BUY

JIO FINANCIAL SERVICES | NOT RATED

Q2 earnings highlights: Fast-tracking growth

SUMMARY

HDFC BANK

- Q2 PAT grew 51% YoY supported by healthy other income and a lower tax rate
- NIM (R) fell 70bps QoQ due to excess liquidity at HDFC bearing a higher cost; opex was moderate and asset quality stable
- Maintain BUY with a revised TP of Rs 1,929 (vs. Rs 2,061), factoring in a +2%/-9% change in our FY24/FY25 PAT estimates

Click here **for the full report.**

BAJAJ FINANCE

- Robust, broad-based AUM growth of 33% YoY to Rs 2.9tn at end-H1FY24; we raise our FY24/FY25 AUM forecast by 3%/4%
- Asset quality remains sound with GNPA under 1%; credit cost in check at 156bps for Q2
- Maintain BUY with a revised TP of Rs 9,605 (vs. Rs 9,105) as we bake in higher growth and the proposed capital raise

Click here **for the full report.**

Daily macro indicators

Indicator	13-Oct	16-Oct	Chg (%)
US 10Y yield (%)	4.61	4.71	9bps
India 10Y yield (%)	7.32	7.33	2bps
USD/INR	83.26	83.28	0.0
Brent Crude (US$/bbl)	90.9	89.7	(1.4)
Dow	33,670	33,985	0.9
Hang Seng	17,813	17,640	(1.0)
Sensex	66,283	66,167	(0.2)
India FII (US$ mn)	**12-Oct**	**13-Oct**	**Chg ($ mn)**
FII-D	104.4	87.4	(17.1)
FII-E	(210.0)	45.8	255.8

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

JIO FINANCIAL SERVICES

- Multi-faceted business model backed by aggressive growth plans in lending, insurance broking and payments
- Strong technology backbone that includes end-to-end digital underwriting and AI models for collection measures
- PAT doubled QoQ to Rs 6.7bn in Q2FY24 on higher revenue, dividend income, profit share from JVs and lower taxes

Click here for the full report.

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 1,929 | ⮝ 25%

HDFC BANK | Banking | 18 October 2023

PAT strong despite margin compression

- **Q2 PAT grew 51% YoY supported by healthy other income and a lower tax rate**
- **NIM (R) fell 70bps QoQ due to excess liquidity at HDFC bearing a higher cost; opex was moderate and asset quality stable**
- **Maintain BUY with a revised TP of Rs 1,929 (vs. Rs 2,061), factoring in a +2%/-9% change in our FY24/FY25 PAT estimates**

Ajit Agrawal
research@bobcaps.in

Deposits outpace loan growth: HDFCB's focus on deposit mobilisation resulted in healthy 5.3% QoQ(merged basis) growth in deposits during Q2FY24 while the loan book grew 4.9%(merged basis). An increase in term deposits reduced the bank's CASA ratio to 37.6%. Retail deposit share held at 83%.

Loan book up 4.9% QoQ: The bank's retail book grew only 3% QoQ, contributing 51% of advances, while CRB posted strong 10% growth. The retail slowdown was due to muted growth in credit cards and personal loans while gold loans (+7.8% QoQ) and other retail loans (+7.2%) did well. In CRB, agri and business banking fared well while corporate loans grew 5.8% QoQ. Management has guided for growth in HDFC's non-individual book, which stood at ~Rs 1tn in Q2. However, considering competitive intensity, we cut our FY24/FY25 loan estimates by 1%/2% each while paring deposit estimates by 6%/8%.

NIM contracts QoQ: Q2 PAT increased 51% YoY to Rs 159.8bn even as NIM (R) contracted 70bps QoQ to 3.65% due to excess liquidity in merged arm HDFC that bore higher cost. However, we believe NIM has bottomed out during the quarter following the gradual consumption of excess liquidity and change in both asset and liability mix. Non-interest income grew 16% QoQ driven by a jump in treasury gains (Rs 10.4bn vs. Rs 5.5bn in Q1) leading to total income growth of 16% QoQ (+41% YoY).

Cost moderates; asset quality stable: The C/I ratio declined 239bps QoQ to 40.4% mainly due to the merger effect, leading to PPOP growth of 21% QoQ. Asset quality was stable despite a spike in stress from HDFC's non-individual portfolio. Slippages moved up to Rs 78bn (Rs 58bn in Q1), but GNPA/NNPA were stable at 1.3%/0.4%. Credit cost stood at 60bps and cumulative provisioning at 156% of GNPA vs. 171% in Q1.

Maintain BUY: Post Q2, we adjust our FY24/FY25 PAT estimates by +2%/-9% for a revised SOTP-based TP of Rs 1,929 (vs. Rs 2,061), set at an unchanged 2.9x FY25E ABV based on the Gordon Growth Model plus Rs 182/sh for subsidiaries. The bank's growth outlook remains healthy and hence we retain BUY.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	HDFCB IN/Rs 1,541
Market cap	US$ 141.4bn
Free float	100%
3M ADV	US$ 415.9mn
52wk high/low	Rs 1,758/Rs 1,434
Promoter/FPI/DII	0%/52%/30%

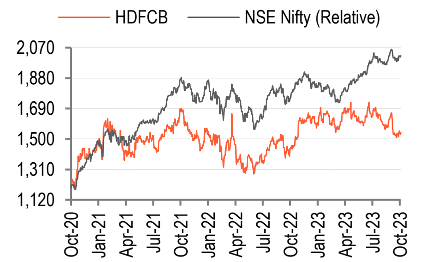
Source: NSE | Price as of 17 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	868,422	1,171,471	1,500,426
NII growth (%)	20.6	34.9	28.1
Adj. net profit (Rs mn)	441,087	595,675	750,092
EPS (Rs)	79.3	90.5	98.9
Consensus EPS (Rs)	79.3	92.0	106.0
P/E (x)	19.4	17.0	15.6
P/BV (x)	3.1	2.8	2.4
ROA (%)	1.9	1.9	1.9
ROE (%)	17.0	16.9	16.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY

TP: Rs 9,605 | ⮝ 19%

BAJAJ FINANCE | NBFC | 17 October 2023

On a strong wicket; maintain BUY

- **Robust, broad-based AUM growth of 33% YoY to Rs 2.9tn at end-H1FY24; we raise our FY24/FY25 AUM forecast by 3%/4%**
- **Asset quality remains sound with GNPA under 1%; credit cost in check at 156bps for Q2**
- **Maintain BUY with a revised TP of Rs 9,605 (vs. Rs 9,105) as we bake in higher growth and the proposed capital raise**

Mohit Mangal
research@bobcaps.in

Strong growth: BAF delivered 33% YoY AUM growth to Rs 2.9tn at end-H1FY24, supported by an uptick across segments. The mortgage business (31% of AUM) grew 28% YoY and urban B2C (20% share) was up 29%. SME lending (13% share) posted 38% growth to Rs 386bn. Two- and three-wheeler financing climbed 63% YoY, contributing 5.7% of AUM from 4.7% at end-H1FY23, as the company financed non-Bajaj Auto products as well. Baking in the Q2 results, we raise our FY24/FY25 AUM estimates by 3%/4% to Rs 3.3tn/Rs 4.2tn.

New businesses showing early positive signs: BAF introduced new auto financing products in Q1 and has scaled this business to 85 locations by the close of the second quarter. The microfinance pilot programme began in September and is active in 12 villages in Uttar Pradesh and Karnataka. Management expects to expand to 100 locations by Mar'24.

Asset quality robust: BAF's GNPA and NNPA stood at 0.9% and 0.3% respectively as of H1FY24 (vs. 1.2% and 0.4% in H1FY23). Despite strong AUM growth, stage-3 assets grew by ~Rs 1bn YoY to Rs 26bn. Credit cost remained low at 156bps.

Higher return ratios despite NIM compression: NIM dipped 14bps QoQ in Q2 as finance cost increased 15bps. However, the company posted high ROE of 24.1% by focusing on operating leverage. Management expects the cost of funds to rise further in H2, putting pressure on margins. We lower our NIM estimate by 7bps for FY24 to 10.2% but maintain our FY25 forecast. Baking in the proposed Rs 100bn capital raise, we now expect lower ROAE of 22.4%/22.8% for FY24/FY25 vs. 23.9%/24.8% earlier.

Maintain BUY: We remain bullish on BAF and value the standalone business at 6.3x FY25E ABV post-money (vs. 6.6x earlier), a 15% premium to the 10Y average but 18% below the 5Y mean. Baking in our estimate and multiple revision, we arrive at a new value of Rs 9,125/sh (Rs 8,619 earlier) for standalone operations. Adding Rs 477/sh for subsidiaries, we have a new SOTP-based TP of Rs 9,605 (Rs 9,105 earlier) that offers 19% upside. BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	BAF IN/Rs 8,093
Market cap	US$ 18.7bn
Free float	44%
3M ADV	US$ 81.5mn
52wk high/low	Rs 8,192/Rs 5,486
Promoter/FPI/DII	56%/20%/13%

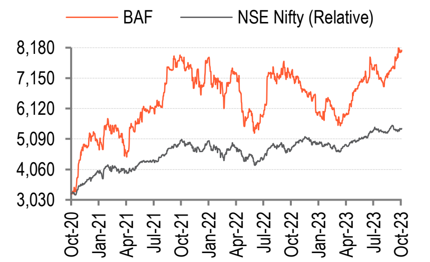
Source: NSE | Price as of 17 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
NII (Rs mn)	229,903	288,302	377,689
NII growth (%)	31.2	25.4	31.0
Adj. net profit (Rs mn)	115,077	145,282	191,734
EPS (Rs)	189.6	235.0	310.1
Consensus EPS (Rs)	189.6	235.0	299.0
P/E (x)	42.7	34.4	26.1
P/BV (x)	9.0	6.6	5.4
ROA (%)	4.7	4.5	4.5
ROE (%)	23.5	22.4	22.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

NOT RATED

JIO FINANCIAL SERVICES | NBFC | 17 October 2023

Q2 earnings highlights: Fast-tracking growth

- **Multi-faceted business model backed by aggressive growth plans in lending, insurance broking and payments**
- **Strong technology backbone that includes end-to-end digital underwriting and AI models for collection measures**
- **PAT doubled QoQ to Rs 6.7bn in Q2FY24 on higher revenue, dividend income, profit share from JVs and lower taxes**

Mohit Mangal
research@bobcaps.in

Diversified business: In its Q2FY24 earnings commentary, Jio Financial Services (JFS, Not Rated) stated that it intends to offer innovative financial solutions through a wide range of offerings. The company, which has ~450 employees (Q2), launched personal loans for the salaried and self-employed via the MyJio app in Mumbai, along with consumer durable loans in 300 stores pan-India. Further, it has partnered with 24 insurers (5 life, 15 general, 4 health) for insurance broking, reopened savings accounts and bill payment services as a payments bank with a ground network of ~2,400 correspondents, and is piloting Sound Box in payment solutions.

Strong pipeline: On the lending front, the company has ambitions to add merchant, auto and home loans to its portfolio as well as loans against shares for small businesses, single proprietors and self-employed individuals. On the payments bank front, it plans to launch debit cards.

Efficient risk management: JFS pre-assesses customers by leveraging conventional and alternate data sources. A customer's underwriting occurs in real time via an end-to-end digital experience. The company uses AI models to monitor potential risks and AI-led preemptive collection measures based on behavioural analytics. JFS is also developing a unified app to cater to the diverse financial needs of customers. Helming its digital efforts is newly appointed Group Chief Technology Officer (CTO) AR Ganesh, a former ICICI Bank executive.

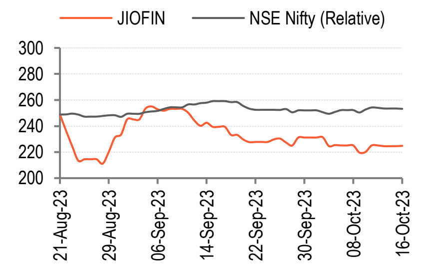
PAT doubles QoQ: Consolidated PAT increased 101% QoQ to Rs 6.7bn in Q2FY24 as operating profit grew 49% QoQ to Rs 5.4bn on a 51% rise in net revenue to Rs 6.1bn that absorbed the 64% spike in opex to Rs 714mn. Net revenue was boosted by dividend income of Rs 2.2bn (nil in Q1). Further, the share of profit from joint ventures came in at Rs 2.2bn (vs. Rs 0.7bn in Q1), and JFS's effective tax rate halved to 11.4% vs. 22.3% in Q1. Consolidated total assets stood at Rs 1.2tn as of Q2FY24 whereas net worth was at Rs 1.1tn.

Valuation: The stock is trading at a P/B of ~1.2x on H1FY24-end book value. We do not have a rating on JFS.

Ticker/Price	JIOFIN IN/Rs 225
Market cap	US$ 17.8bn
Free float	54%
52wk high/low	Rs 267/Rs 203
Promoter/FPI/DII	46%/26%/16%

Source: NSE | Price as of 16 Oct 2023

Stock performance



Source: NSE

NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA ("US") OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.

Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**
Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
Brand Name: **BOBCAPS**
Trade Name: **www.barodaetrade.com**
CIN: **U65999MH1996GOI098009**

Logo:

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.
Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

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.

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOB Capital Markets Limited (BOBCAPS).

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Other disclaimers

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an "as is" basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS's judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the "**Losses**") which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

Distribution into the United Kingdom ("UK"):

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd) ("**MSL**") who is authorised and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom (MSL and its affiliates are collectively referred to as **"MAYBANK**"). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK's legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the "Order"), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as "relevant persons").

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

No distribution into the US:

This report will not be distributed in the US and no US person may rely on this communication.

Other jurisdictions:

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.