

July 26, 2023

RESULT REPORT Q1 FY24 | Sector: Financials

Bajaj Finance Limited

Remains on strong footing

An in-line performance characterized by strong growth and profitability

BAF delivered a small beat on NII aided by resilient NIM; however, marginally higher credit cost precluded an-earnings beat. Besides the already revealed strong traction in new loans bookings, customer base and AUM, the quarter had additional positives of solid growth in B2B disbursements, sustained growth momentum in SME, Commercial and Mortgages, Opex/NII further improving on the back of rising traction on digital platforms and moderation in GNPL/NNPL levels. Incremental growth in Mortgages continues to be led by LRD and Developer Finance, even as company holds on to a reasonably healthy growth in Home Loans.

The only outlier in the quarter was higher credit cost which was driven by 1) 8% sequential increase in Stage-2 loans (mainly in B2C business), 2) higher std. assets provisioning due to strong qoq growth, 3) further strengthening of ECL model (reflected in enhanced coverage levels) and 4) some provisioning made on Manipur portfolio due to unrest. With a small benefit of lower tax rate (availment of exemption u/s 36 1 (viii) by BHFL), RoA was maintained at 5.4% and RoE marginally rose to 24.5%.

Management commentary remains sanguine

Management raised the long-term profitability guidance to RoA of 4.6%-4.8% (earlier 4-4.5%) and RoE of 21%-23% (earlier 19-21%) and upgraded the long-term asset quality guidance to GNPA of 1.2%-1.4% (earlier 1.4-1.7%) and NNPA of 0.4%-0.5% (earlier 0.4-0.7%). For the current year, BAF estimates AUM growth to be 29-31% (earlier guidance was 28-29%) with largely stable segmental mix. Co. is confident of adding around 13mn new customers as against 11.6mn in FY23. NIM is expected to decline by 10-15 bps each in the next two quarters and witness some reversal in FY25. Operating leverage is estimated to come through gradually every quarter with absolute cost growth having peaked out. Full-year credit cost is expected at 1.55-1.65% which includes 6-8 bps impact of ECL strengthening. Gold Loans portfolio is expected to reach Rs50-55bn by March'24 on the back of step-up in branch expansion and New Car financing is estimated to become Rs2-2.5bn per month business by year-end. Management remains wary of high competitive intensity across ticket sizes in PL including in deeper markets.

FY25 earnings upgraded by 4%; retain BUY

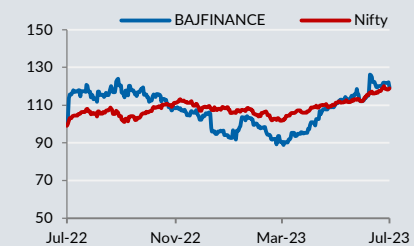
Raising of AUM growth assumptions and marginal downward adjustment in tax rate has caused 4% upgrade in our FY25 profit estimate. We expect 27% AUM/earnings CAGR over FY23-25 with avg. RoA/RoE delivery of 4.7%/24%. The stock is trading at a shade above its long-term mean valuation (1-yr rolling fwd. P/ABV of 6.4x) 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. Development of new product lines like Gold Loans, Auto loans, CV finance, Tractor loans, Microfinance and Emerging Corporate loans would support long-term franchise growth. Retain BUY with increased 12m PT of Rs8550.

Reco	: BUY
CMP	: Rs 7,433
Target Price	: Rs 8,550
Potential Return	: 15.0%

Stock data (as on Jul 26, 2023)

Nifty	19,778
52 Week h/l (Rs)	8000 / 5486
Market cap (Rs/USD mn)	4602908 / 56128
Outstanding Shares (mn)	605
6m Avg t/o (Rs mn):	6,619
Div yield (%):	0.4
Bloomberg code:	BAF IN
NSE code:	BAJFINANCE

Stock performance



	1M	3M	1Y
Absolute return	6.2%	22.7%	18.7%

Shareholding pattern

Promoter	55.9%
FII+DII	32.2%
Others	11.8%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	8,550	7,865

Δ in earnings estimates

	FY23	FY24e	FY25e
EPS (New)	190.4	239.0	305.1
EPS (Old)	190.4	238.0	294.0
% Change	-	0.4%	3.8%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Op. income	288,458	358,282	450,298
PPOP	187,158	236,722	301,995
Net profit	115,077	144,470	184,438
Growth (%)	63.7	25.5	27.7
EPS (Rs)	190.4	239.0	305.1
ABVPS (Rs)	885.6	1,085.3	1,345.0
P/E (x)	39.0	31.1	24.4
P/ABV (x)	8.4	6.8	5.5
ROE (%)	23.5	23.9	24.7
ROA (%)	4.7	4.6	4.7

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MANUJ OBEROI, Associate

Exhibit 1: Result table

Particulars (Rs mn)	Q1 FY24	Q4 FY23	% qoq	Q1 FY23	% yoy
Operating Income	124,978	113,630	10.0	92,828	34.6
Interest expended	(41,025)	(35,920)	14.2	(26,451)	55.1
Net Interest Income	83,953	77,710	8.0	66,376	26.5
Other Income	27	35	(22.9)	18	52.5
Total Income	83,980	77,745	8.0	66,394	26.5
Operating expenses	(28,544)	(26,556)	7.5	(23,819)	19.8
PPOP	55,437	51,190	8.3	42,575	30.2
Provisions	(9,953)	(8,594)	15.8	(7,547)	31.9
PBT	45,484	42,595	6.8	35,028	29.9
Tax	(11,143)	(11,033)	1.0	(9,065)	22.9
Reported PAT	34,369	31,578	8.8	25,963	32.4

Source: Company, YES Sec

Exhibit 2: Business Data

(Rs mn)	Q1 FY24	Q4 FY23	% qoq	Q1 FY23	% yoy
AUM	2,700,970	2,473,790	9.2	2,040,180	32.4
Consumer B2B -Auto Fin.	147,360	129,790	13.5	99,620	47.9
Consumer B2B -Sales Fin.	223,210	176,270	26.6	164,750	35.5
Consumer B2C	548,450	501,080	9.5	412,070	33.1
Rural Business	258,390	242,600	6.5	213,040	21.3
SME Business	349,640	337,650	3.6	265,640	31.6
Securities Lending	162,380	150,930	7.6	108,010	50.3
Commercial Lending	180,640	158,340	14.1	120,400	50.0
Mortgages	830,900	777,130	6.9	656,650	26.5

Source: Company, YES Sec

Exhibit 3: Customer Franchise

(mn)	Q1 FY24	Q4 FY23	% qoq	Q1 FY23	% yoy
Total Franchise	73.0	69.1	1.0	60.3	21.0
Non-Delinquent Customers	48.9	45.9	6.6	40.3	21.3
Cross sell franchise	44.3	40.6	9.1	34.7	27.7
New to BAF	3.8	3.1	24.3	2.7	40.7
New loans booked	9.9	7.6	31.5	7.4	34.0
EMI Cards in force	41.6	42.0	(1.0)	32.8	26.8

Source: Company, YES Sec

Exhibit 4: GNPA trend

GNPA - (%)	Q1 FY24	Q4 FY23	chg qoq	Q1 FY23	chg yoy
Consumer B2B-Auto Fin.	3.9	4.8	(0.9)	10.2	(6.3)
Consumer B2B-Sales Fin	0.4	0.4	(0.0)	0.3	0.0
Consumer B2C	0.9	0.9	0.0	0.8	0.1
Rural B2B	0.4	0.4	(0.0)	0.2	0.2
Rural B2C	0.9	1.0	(0.0)	1.0	(0.1)
SME	1.2	1.2	(0.0)	1.3	(0.1)
Mortgages	0.6	0.6	(0.0)	0.7	(0.2)

Source: Company, YES Sec

Exhibit 5: Key Ratios

(%)	Q1 FY24	Q4 FY23	chg qoq	Q1 FY23	chg yoy
Op Income / Average AUM*	19.3	19.0	0.3	18.5	0.8
Interest Expense / Average AUM*	6.3	6.0	0.3	5.3	1.1
NII / Average AUM*	13.0	13.0	(0.0)	13.2	(0.2)
Cost to Income	34.0	34.2	(0.2)	35.9	(1.9)
Provisions / Average AUM	1.5	1.4	0.1	1.5	0.0
RoE	24.5	23.9	0.6	23.1	1.4
RoA	5.4	5.4	-	5.3	0.1
CAR	24.6	25.0	(0.4)	26.2	(1.6)
Tier-1	23.0	23.2	(0.2)	23.8	(0.8)
Gross NPA	0.9	0.9	(0.1)	1.3	(0.4)
Net NPA	0.3	0.3	(0.0)	0.5	(0.2)
PCR	65.0	64.0	1.0	60.0	5.0

Source: Company, YES Sec; *Calculated

Exhibit 6: PCR trend

PCR - (%)	Q1 FY24	Q4 FY23	chg qoq	Q1 FY23	chg yoy
Consumer B2B-Auto Fin.	51.0	51.0	-	50.0	1.0
Consumer B2B-Sales Fin	79.0	77.0	2.0	82.0	(3.0)
Consumer B2C	75.0	75.0	-	75.0	-
Rural B2B	80.0	78.0	2.0	86.0	(6.0)
Rural B2C	70.0	71.0	(1.0)	72.0	(2.0)
SME	75.0	75.0	-	75.0	-
Mortgages	58.0	57.0	1.0	55.0	3.0

Source: Company, YES Sec

Exhibit 7: ECL Summary

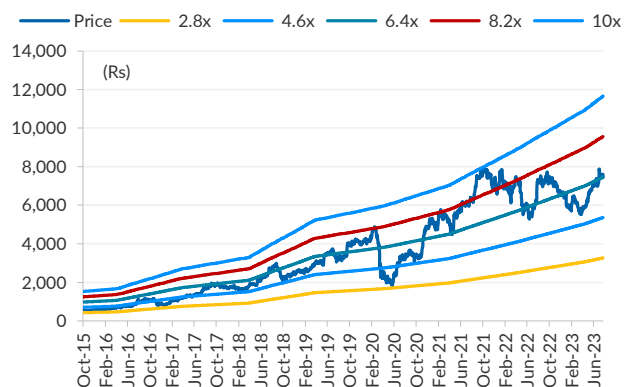
(Rs mn)	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24
Stage 1 & 2 assets					
Gross Stage 1 & 2 assets	1,999,290	2,143,360	2,271,030	2,443,230	2,675,230
ECL Provision Stage 1 & 2	25,940	25,670	26,380	28,900	30,540
Net Stage 1 & 2 assets	1,973,350	2,117,690	2,244,650	2,414,330	2,644,690
Coverage ratio (%)	1.3	1.2	1.2	1.2	1.1
Stage 3 assets					
Gross Stage 3 assets	25,390	25,300	26,100	23,130	23,480
ECL Provision Stage 3	15,210	15,770	16,760	14,760	15,210
Net Stage 3 assets	10,180	9,530	9,340	8,370	8,270
Coverage ratio (%)	59.9	62.3	64.2	63.8	64.8

Source: Company, YES Sec

KEY INVESTOR CALL TAKEAWAYS

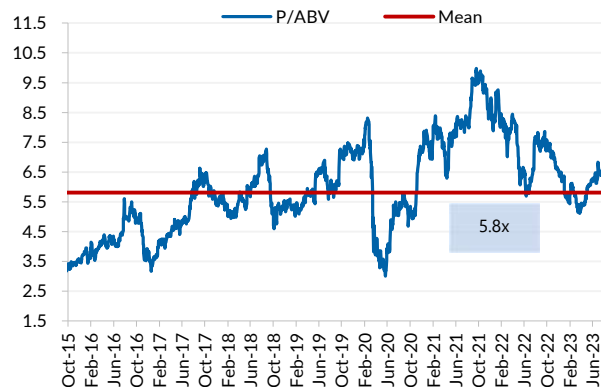
- Business construct profitability guidance raised to RoA of 4.6%-4.8% (earlier 4-4.5%) and ROE of 21%-23% (earlier 19-21%) in the long term.
- Likewise, long-term asset quality guidance upgraded with GNPA expected in corridor of 1.2%-1.4% (earlier 1.4-1.7%) and NNPA in corridor of 0.4%-0.5% (earlier 0.4-0.7%).
- With a strong start to the year, BAF estimates AUM growth to be in the range of 29-31% in FY24 – earlier guidance was 28-29%.
- Co. would likely add 13mn new customers in FY24 - it added 11.6mn new customers in FY23.
- NIM compression in Q1 FY24 was lesser than management's expectation of 15-17 bps - next two quarters would likely see 10-15 bps NIM moderation - co. expects NIM reversal in FY25.
- In BAF stand-alone, about 25% of bank borrowings are linked to Repo, 30% to MCLR and the balance linked to T-Bill, G-Sec and other external benchmarks.
- Lower fee growth in BAF stand-alone due to change in cross-sell product mix – also assignment related fees were lower yoy in BHFL.
- Operating leverage would come through every quarter - peak of the absolute cost growth is behind.
- Full-year credit cost expected at 1.55-1.65% including 6-8 bps impact of ECL strengthening.
- Reasons for slightly higher credit cost in the quarter were 1) higher std. assets provisioning due to strong growth (Rs350mn above Q4), 2) further strengthening of ECL model (by Rs0.5bn from management overlay) and 3) provisioning made (Rs150mn) on Manipur portfolio due to local unrest (moratorium has been offered).
- Risk metrics marked yellow from green in Rural B2C and disbursements were accordingly scaled down – the growth approach would remain cautious till Nov-Dec.
- Cross-sell customer franchise would not include customers having gone into 30+ dpd ever.
- New car financing to become Rs2-2.5bn per month business by March'24.
- Non-captive business in 2w/3w financing adding to growth of the segment.
- Gold Loan portfolio to reach Rs50-55bn by March'24 on the back of step-up in branch expansion.
- Seeing high (concerning) competitive intensity across ticket sizes in PL and even in deeper markets - as per credit bureau, the overall PL market has substantially expanded from around Rs350bn in Oct-Dec 2019 to Rs650bn in Oct-Dec 2022.
- LAP not optimally priced in the market and thus co. prefers growth through LRD.
- About 13000-14000 people in the co. are managing collections by handling 47000+ agencies spread across 3800+ cities & towns.
- Employee attrition has meaningfully come down in Q1 FY24 and stood at 14% versus around 19% in FY23.
- Senior team share a common goal and purpose and have an intent to create a strong legacy.
- BHFL tax rate has rebased 3% lower due to availment of exemption u/s 36 1 (viii).

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)	FY21	FY22	FY23	FY24E	FY25E
Equity and Liabilities					
Equity Share Capital	1,203	1,207	1,209	1,209	1,209
Other Equity	367,981	435,920	542,511	665,765	825,450
Share-holders fund	369,184	437,127	543,720	666,974	826,659
Financial Liabilities	1,338,146	1,679,935	2,200,952	2,833,933	3,518,889
Deposits	258,034	307,995	446,656	589,585	725,190
Trade payables	12,360	16,511	20,955	25,669	31,445
Debt Securities	545,021	762,231	868,452	1,111,619	1,383,966
Borrowings (Excl. Debt Sec.)	474,294	543,636	815,494	1,043,832	1,299,571
Subordinated Liabilities	38,986	38,458	36,303	46,468	57,852
Other Financial Liabilities	9,451	11,104	13,093	16,759	20,865
Non-Financial Liabilities	7,374	7,992	7,615	9,342	11,467
Current tax liabilities (net)	1,802	1,001	1,392	1,740	2,175
Provisions	1,377	1,669	2,704	3,381	4,226
Other non-financial liabilities	4,195	5,322	3,518	4,222	5,066
Total Liabilities + Equity	1,714,704	2,125,054	2,752,287	3,510,249	4,357,015
Assets					
Financial Assets	1,688,819	2,094,584	2,715,935	3,472,696	4,318,147
Cash and Cash Equivalents	18,493	34,072	15,508	14,623	12,544
Bank balances	3,150	2,731	27,538	8,261	8,261
Trade Receivables	10,969	12,659	12,997	15,597	18,716
Other Receivables	0	1,219	1,489	1,861	2,326
Loans	1,466,869	1,914,233	2,422,689	3,149,496	3,936,870
Investments	183,969	122,455	227,518	273,022	327,626
Other Financial Assets	5,370	7,215	8,196	9,836	11,803
Non- Financial Assets	25,885	30,470	36,351	37,553	38,868
Current tax assets (net)	1,598	1,683	1,814	2,177	2,613
Deferred tax assets (net)	9,459	9,511	9,371	9,371	9,371
Property, plant and equipment	10,417	12,826	16,766	17,604	18,484
Goodwill	33	33	33	33	33
Other Intangible assets	3,218	4,646	7,076	7,076	7,076
Other non-financial assets	1,160	1,771	1,292	1,292	1,292
Total Assets	1,714,704	2,125,054	2,752,287	3,510,249	4,357,015

Source: Company, YES Sec

Exhibit 11: Income statement

Y/e 31 Mar (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Income from Operations	266,681	316,405	413,974	541,057	668,487
Interest expense	(94,140)	(97,537)	(125,599)	(182,896)	(218,319)
Net interest income	172,541	218,868	288,375	358,162	450,168
Non-interest income	150	76	83	120	130
Total op income	172,691	218,944	288,458	358,282	450,298
Total op expenses	(53,082)	(75,872)	(101,300)	(121,560)	(148,303)
PPoP	119,608	143,072	187,158	236,722	301,995
Provisions	(59,686)	(48,034)	(31,897)	(44,095)	(56,078)
Profit before tax	59,923	95,038	155,262	192,627	245,917
Taxes	(15,724)	(24,756)	(40,202)	(48,157)	(61,479)
Net profit	44,198	70,282	115,060	144,470	184,438

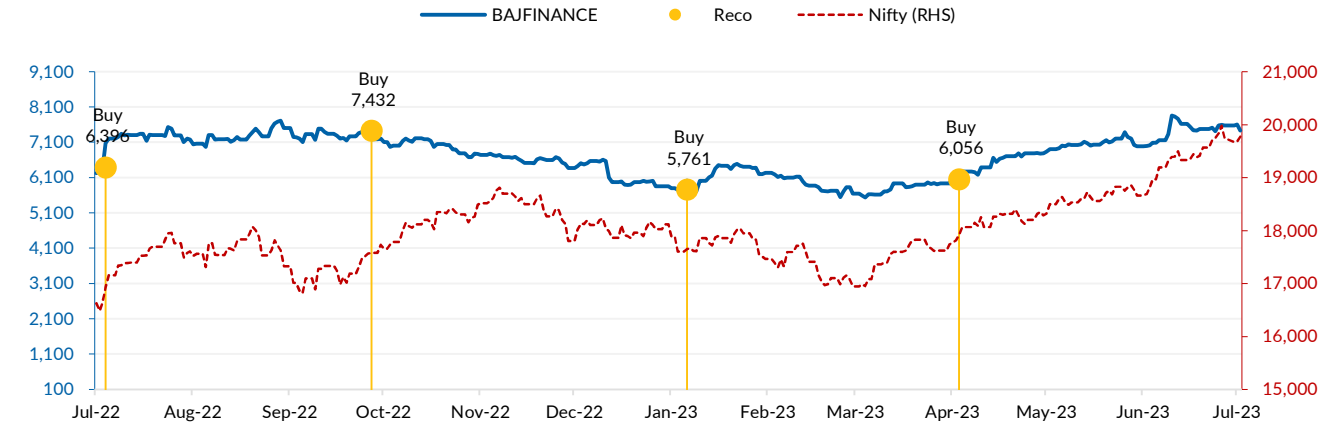
Source: Company, YES Sec

Exhibit 12: Growth and Ratio matrix

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
Growth matrix (%)					
Net interest income	2.1	26.8	31.8	24.2	25.7
Total op income	2.1	26.8	31.7	24.2	25.7
Op profit (pre-provision)	6.3	19.6	30.8	26.5	27.6
Net profit	(16.0)	59.0	63.7	25.6	27.7
Advances	3.8	30.5	26.6	30.0	25.0
Total Borrowings	(2.4)	27.0	28.0	28.0	24.5
Total assets	4.3	23.9	29.5	27.5	24.1
Profitability Ratios (%)					
NIM	11.5	12.5	13.0	12.6	12.4
Return on Avg. Equity	12.8	17.4	23.5	23.9	24.7
Return on Avg. Assets	2.6	3.7	4.7	4.6	4.7
Per share ratios (Rs)					
EPS	73.5	116.5	190.4	239.0	305.1
Adj. BVPS	594.6	702.3	885.6	1,085.3	1,345.0
DPS	10.0	20.0	30.0	30.0	35.0
Other key ratios (%)					
Cost/Income	30.7	34.7	35.1	33.9	32.9
Tier-I capital	25.1	24.8	23.8	22.5	22.3
Gross NPLs/Loans	1.8	1.6	0.9	0.9	0.9
Credit Cost	4.0	2.7	1.4	1.6	1.6
Net NPLs/Net loans	0.8	0.7	0.3	0.3	0.3
Tax rate	26.2	26.0	25.9	25.0	25.0
Dividend yield	0.1	0.3	0.4	0.4	0.5

Source: Company, YES Sec

Recommendation Tracker



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Name of the Research Analyst : Rajiv Mehta, Manuj Oberoi

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Analyst
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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

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