

Jan 30, 2024

RESULT REPORT Q3 FY24 | Sector: Financials

# Bajaj Finance Limited

## Credit cost at pre-Covid level

### Soft quarter - growth was strong, margin remained under pressure and credit cost elevates

BAF delivered a mild miss on NII/PPOP and 4% lower-than-expected earnings on account of 11 bps qoq compression in NIM and increased credit cost at 1.7%. AUM growth was strong at 7% qoq/35% yoy notwithstanding a sharp growth deceleration in Rural B2C (ex. Gold Loans) and calibration in Urban B2C product segments. Disbursement growth in B2B segments, Mortgages and 2W/3W financing continues to be robust. The SME and Commercial portfolios of BAF also continue to grow at strong pace. Overall, new loans booked in the quarter were up 26% yoy and co. added highest-ever 3.85mn new customers.

The decline in NIM mainly came on the back of 9 bps increase in funding cost. In the light of increase in risk weights and higher incremental cost of funds, BAF has increased rates across all portfolios by 20-30 bps. Co. augmented its distribution and resources by 4-6% in the quarter, and hence Opex grew by 5% qoq. Except for Mortgages, the Stage-2 and Stage-3 delinquencies rose meaningfully across most products. The higher delinquency flows during the quarter underpinned the increase in credit cost. Management assesses that risk metrics across all businesses were stable except for Rural B2C. Loan losses were higher in Urban B2C segment due to lower collection efficiencies, but portfolio remains in good shape.

### Growth to remain strong with asset quality trends fully normalizing to pre-Covid times

With a well-diversified product portfolio, Management remains upbeat on growth while being more focused on risk and margins. In the near term, the current growth momentum is likely to continue led by B2B segment, Mortgages, 2W/3W financing and SME and Commercial loans. BAF has already calibrated business volumes in Rural and Urban B2C segments where more notable increase in delinquencies was witnessed. Market PL volumes haven't declined in recent months and there exists robust demand with structural increase in adoption. In BAF's core ticket segment of Rs2-4 lakhs in Urban B2C and Rs1.25-3 lakhs in Rural B2C, the delinquency increase is relatively low. Scaling-up of recently launched products like Auto Loans, MFI, Tractor Loans and Emerging Corporate would aid overall loan growth in FY25/26. Management remains confident of delivering 25-27% pa AUM growth in the long run.

With delinquency flows/GNPL level expected to normalize towards the pre-Covid trends across products, the credit cost is expected to remain at 1.6-1.8% in the coming quarters. On the regulatory embargo for e-COM loans and Insta EMI Card for deficiencies in compliance with the guidelines on Digital Lending and Key Fact Statements, BAF has implemented requisite corrective actions and would be making a final submission to RBI in next couple of weeks.

### Sturdy earnings growth and RoE delivery expected; Retain BUY with 12m PT of Rs9225

There has been a cut of 2-5% in our earnings estimates for FY24-26 mainly on increased credit cost. BAF would likely deliver 27-28% AUM CAGR over the aforesaid period underpinned by distribution addition/efficiencies, product additions and solid execution. The co. has taken rate actions across products to mitigate the margin impact from increase in CoF after risk weight changes. We estimate earnings CAGR of 27% over FY23-26 with avg. RoA/RoE delivery of 4.6%/22%. The stock is trading below its long-term mean valuation 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, credit cycles and liquidity.

Reco	: BUY
CMP	: Rs 7,192
Target Price	: Rs 9,225
Potential Return	: 28.3%

#### Stock data (as on Jan 29, 2024)

Nifty	21,738
52 Week h/l (Rs)	8192 / 5486
Market cap (Rs/USD mn)	4376718 / 52657
Outstanding Shares (mn)	618
6m Avg t/o (Rs mn):	7,227
Div. yield (%):	0.4
Bloomberg code:	BAF IN
NSE code:	BAJFINANCE

#### Stock performance



	1M	3M	1Y
Absolute return	-1.9%	-4.2%	24.8%

#### Shareholding pattern

Promoter	54.8%
FII+DII	35.0%
Others	10.1%

#### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	9,225	9,700

#### Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	233.0	301.6	376.4
EPS (Old)	238.0	312.1	401.0
% Change	-2.1%	-3.4%	-6.1%

#### Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Op. income	3,63,738	4,69,525	5,84,017
PPOP	2,40,659	3,16,907	3,96,297
Net profit	1,44,016	1,86,395	2,32,678
Growth (%)	25.1	29.4	24.8
EPS (Rs)	233.0	301.6	376.4
ABVPS (Rs)	1,221.2	1,477.0	1,806.7
P/E (x)	30.9	23.8	19.1
P/ABV (x)	5.9	4.9	4.0
ROE (%)	22.0	22.0	22.6
ROA (%)	4.6	4.6	4.6

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#### MANUJ OBEROI, Associate

## Exhibit 1: Result table

Particulars (Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
Operating Income	1,41,611	1,33,783	5.9	1,07,843	31.3
Interest expended	(48,680)	(45,371)	7.3	(33,512)	45.3
Net Interest Income	92,931	88,412	5.1	74,331	25.0
Other Income	49	35	40.1	17	196.4
Total Income	92,980	88,447	5.1	74,347	25.1
Operating expenses	(31,557)	(30,100)	4.8	(25,818)	22.2
PPOP	61,422	58,347	5.3	48,529	26.6
Provisions	(12,484)	(10,771)	15.9	(8,413)	48.4
PBT	48,939	47,576	2.9	40,116	22.0
Tax	(12,566)	(12,070)	4.1	(10,387)	21.0
Reported PAT	36,390	35,508	2.5	29,729	22.4

Source: Company, YES Sec

## Exhibit 2: Business Data

(Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
AUM	31,09,680	29,02,640	7.1	23,08,420	34.7
Consumer B2B -Auto Fin.	1,93,840	1,65,480	17.1	1,17,860	64.5
Consumer B2B -Sales Fin.	2,44,850	2,29,730	6.6	1,67,120	46.5
Consumer B2C	6,17,050	5,81,780	6.1	4,67,330	32.0
Rural Business	2,75,920	2,64,140	4.5	2,31,420	19.2
SME Business	4,13,960	3,86,730	7.0	3,08,800	34.1
Securities Lending	1,92,050	1,69,860	13.1	1,32,570	44.9
Commercial Lending	2,06,720	1,95,580	5.7	1,48,480	39.2
Mortgages	9,65,290	9,09,340	6.2	7,34,840	31.4

Source: Company, YES Sec

## Exhibit 3: Customer Franchise

(mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
Total Franchise	80.4	76.6	1.0	66.1	21.7
Non-Delinquent Customers	54.1	51.3	5.4	43.9	23.3
Cross sell franchise	49.3	46.7	5.6	38.6	27.7
New to BAF	3.9	3.6	7.5	3.1	22.6
New loans booked	9.9	8.5	15.6	7.8	25.8
EMI Cards in force	42.2	41.9	0.7	35.9	17.5

Source: Company, YES Sec

## Exhibit 4: GNPA trend

GNPA - (%)	Q3 FY24	Q2 FY24	chg qoq	Q3 FY23	chg yoy
Consumer B2B-Auto Fin.	2.8	3.1	(0.3)	6.0	(3.2)
Consumer B2B-Sales Fin	0.7	0.6	0.1	0.6	0.1
Consumer B2C	1.3	1.2	0.1	1.1	0.2
Rural B2B	0.7	0.6	0.1	0.6	0.1
Rural B2C	1.3	1.3	0.1	1.3	(0.0)
SME	1.3	1.3	0.1	1.5	(0.2)
Mortgages	0.5	0.5	0.0	0.6	(0.1)

Source: Company, YES Sec

## Exhibit 5: Key Ratios

(%)	Q3 FY24	Q2 FY24	chg qoq	Q3 FY23	chg yoy
Op Income / Average AUM*	18.8	19.1	(0.3)	19.2	(0.4)
Interest Expense / Average AUM*	6.5	6.5	0.0	6.0	0.5
NII / Average AUM*	12.4	12.6	(0.3)	13.2	(0.9)
Cost to Income	33.9	34.0	(0.1)	34.7	(0.8)
Provisions / Average AUM	1.7	1.5	0.1	1.5	0.2
RoE	22.0	24.1	(2.1)	24.0	(2.0)
RoA	4.9	5.2	(0.3)	5.4	(0.5)
CAR	23.9	23.2	0.7	25.1	(1.3)
Tier-1	22.8	21.9	0.9	23.3	(0.5)
Gross NPA	1.0	0.9	0.0	1.1	(0.2)
Net NPA	0.4	0.3	0.1	0.4	(0.0)
PCR	62.0	66.0	(4.0)	64.0	(2.0)

Source: Company, YES Sec; \*Calculated

## Exhibit 6: PCR trend

PCR - (%)	Q3 FY24	Q2 FY24	chg qoq	Q3 FY23	chg yoy
Consumer B2B-Auto Fin.	50.0	50.0	-	50.0	-
Consumer B2B-Sales Fin	79.0	79.0	-	85.0	(6.0)
Consumer B2C	65.0	75.0	(10.0)	75.0	(10.0)
Rural B2B	80.0	80.0	-	86.0	(6.0)
Rural B2C	62.0	71.0	(9.0)	73.0	(11.0)
SME	69.0	74.0	(5.0)	75.0	(6.0)
Mortgages	55.0	56.0	(1.0)	54.0	1.0

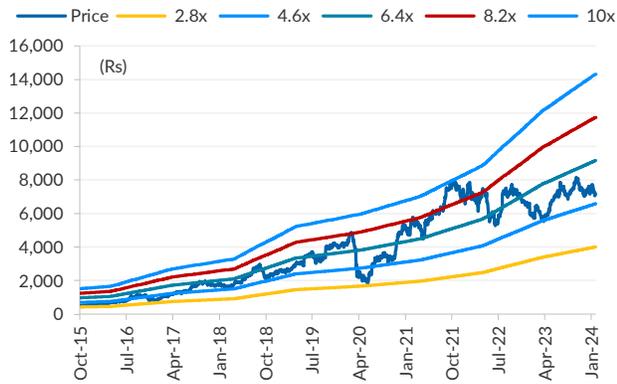
Source: Company, YES Sec

## Exhibit 7: ECL Summary

(Rs mn)	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24
<b>Stage 1 &amp; 2 assets</b>					
Gross Stage 1 & 2 assets	2,271,030	2,443,230	2,675,230	2,877,560	30,83,330
ECL Provision Stage 1 & 2	26,380	28,900	30,540	29,050	30,790
Net Stage 1 & 2 assets	2,244,650	2,414,330	2,644,690	2,848,510	30,52,540
Coverage ratio (%)	1.2	1.2	1.1	1.0	1.0
<b>Stage 3 assets</b>					
Gross Stage 3 assets	26,100	23,130	23,480	26,450	29,630
ECL Provision Stage 3	16,760	14,760	15,210	17,470	18,280
Net Stage 3 assets	9,340	8,370	8,270	8,980	11,350
Coverage ratio (%)	64.2	63.8	64.8	66.0	61.7

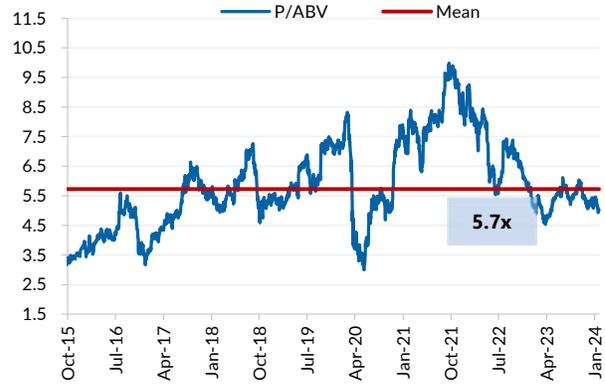
Source: Company, YES Sec

**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
<b>Equity and Liabilities</b>					
Equity Share Capital	1,207	1,209	1,236	1,236	1,236
Other Equity	4,35,920	5,42,511	7,64,693	9,25,777	11,33,143
<b>Share-holders fund</b>	<b>4,37,127</b>	<b>5,43,720</b>	<b>7,65,929</b>	<b>9,27,013</b>	<b>11,34,380</b>
<b>Financial Liabilities</b>	<b>16,79,935</b>	<b>22,00,952</b>	<b>27,77,999</b>	<b>35,43,680</b>	<b>44,24,564</b>
Deposits	3,07,995	4,46,656	6,02,985	7,71,821	9,87,931
Trade payables	16,511	20,955	25,669	31,445	38,520
Debt Securities	7,62,231	8,68,452	10,76,881	13,73,023	17,02,549
Borrowings (Excl. Debt Sec.)	5,43,636	8,15,494	10,11,213	12,89,296	15,98,727
Subordinated Liabilities	38,458	36,303	45,016	57,395	71,170
Other Financial Liabilities	11,104	13,093	16,235	20,700	25,668
<b>Non-Financial Liabilities</b>	<b>7,992</b>	<b>7,615</b>	<b>9,342</b>	<b>11,467</b>	<b>14,080</b>
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
<b>Total Liabilities + Equity</b>	<b>21,25,054</b>	<b>27,52,287</b>	<b>35,53,270</b>	<b>44,82,160</b>	<b>55,73,024</b>
<b>Assets</b>					
<b>Financial Assets</b>	<b>20,94,584</b>	<b>27,15,935</b>	<b>35,15,718</b>	<b>44,43,292</b>	<b>55,32,709</b>
Cash and Cash Equivalents	34,072	15,508	9,191	13,163	15,020
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	19,14,233	24,22,689	31,97,950	40,61,396	50,76,745
Investments	1,22,455	2,27,518	2,73,022	3,27,626	3,93,152
Other Financial Assets	7,215	8,196	9,836	11,803	14,163
<b>Non- Financial Assets</b>	<b>30,470</b>	<b>36,351</b>	<b>37,553</b>	<b>38,868</b>	<b>40,315</b>
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
<b>Total Assets</b>	<b>21,25,054</b>	<b>27,52,287</b>	<b>35,53,270</b>	<b>44,82,160</b>	<b>55,73,024</b>

Source: Company, YES Sec

## Exhibit 11: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Income from Operations	3,16,405	4,13,974	5,51,294	7,04,658	8,60,868
Interest expense	(97,537)	(1,25,599)	(1,87,716)	(2,35,317)	(2,77,062)
<b>Net interest income</b>	<b>2,18,868</b>	<b>2,88,375</b>	<b>3,63,578</b>	<b>4,69,341</b>	<b>5,83,806</b>
Non-interest income	76	83	160	184	212
Total op income	2,18,944	2,88,458	3,63,738	4,69,525	5,84,017
Total op expenses	(75,872)	(1,01,300)	(1,23,079)	(1,52,618)	(1,87,720)
<b>PPoP</b>	<b>1,43,072</b>	<b>1,87,158</b>	<b>2,40,659</b>	<b>3,16,907</b>	<b>3,96,297</b>
Provisions	(48,034)	(31,897)	(47,348)	(66,712)	(83,978)
Profit before tax	95,038	1,55,262	1,93,311	2,50,195	3,12,319
Taxes	(24,756)	(40,202)	(49,294)	(63,800)	(79,641)
<b>Net profit</b>	<b>70,282</b>	<b>1,15,060</b>	<b>1,44,016</b>	<b>1,86,395</b>	<b>2,32,678</b>

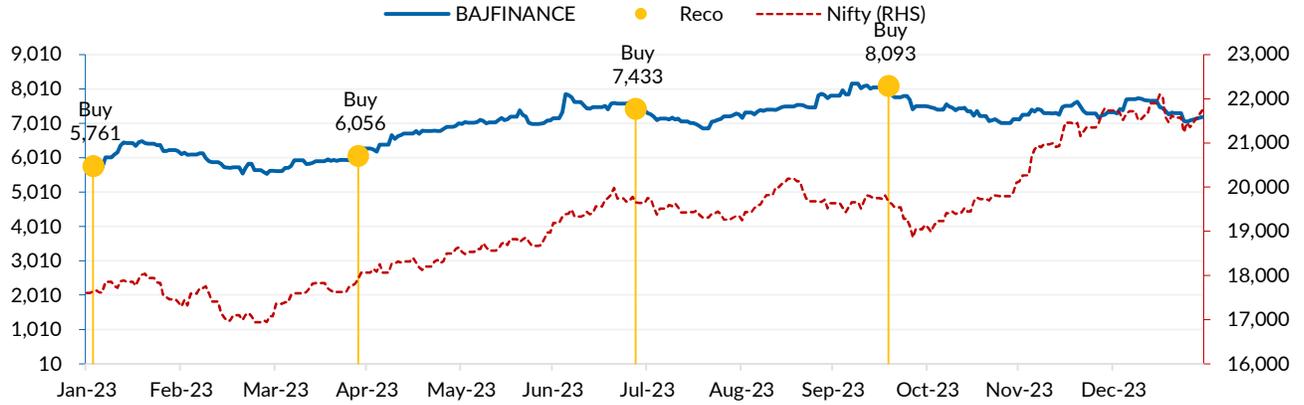
Source: Company, YES Sec

## Exhibit 12: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth matrix (%)</b>					
Net interest income	26.8	31.8	26.1	29.1	24.4
Total op income	26.8	31.7	26.1	29.1	24.4
Op profit (pre-provision)	19.6	30.8	28.6	31.7	25.1
Net profit	59.0	63.7	25.2	29.4	24.8
Advances	30.5	26.6	32.0	27.0	25.0
Total Borrowings	27.0	28.0	24.0	27.5	24.0
Total assets	23.9	29.5	29.1	26.1	24.3
<b>Profitability Ratios (%)</b>					
NIM	12.5	13.0	12.7	12.7	12.5
Return on Avg. Equity	17.4	23.5	22.0	22.0	22.6
Return on Avg. Assets	3.7	4.7	4.6	4.6	4.6
<b>Per share ratios (Rs)</b>					
EPS	116.5	190.4	233.0	301.6	376.4
Adj. BVPS	702.3	885.6	1,221.2	1,477.0	1,806.7
DPS	20.0	30.0	30.0	35.0	35.0
<b>Other key ratios (%)</b>					
Cost/Income	34.7	35.1	33.8	32.5	32.1
Tier-I capital	24.8	23.8	23.4	22.3	21.9
Gross NPLs/Loans	1.6	0.9	0.9	0.9	0.9
Credit Cost	2.7	1.4	1.7	1.8	1.8
Net NPLs/Net loans	0.7	0.3	0.3	0.3	0.3
Tax rate	26.0	25.9	25.5	25.5	25.5
Dividend yield	0.3	0.4	0.4	0.5	0.5

Source: Company, YES Sec

## Recommendation Tracker



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Alpha Plus Fund (CAT III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 |  
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Name of the Research Analyst: Rajiv Mehta, Manuj Oberoi

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1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

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Analyst Signature

Analyst Signature

## RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

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

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

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